The National Magazine of Business Fundamentals

CREDIT MONTHLY

Vol. 32, No. 11

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NOVEMBER, 1930

De Luxe Records Keep Pace With Shell Sales

WHEREVER records must keep up with large volume sales, De Luxe systems meet every requirement of efficient operation.

Valuable time, effort and space are saved for the Shell Oil Company, San Francisco, in this De Luxe installation of machine bookkeeping trays and stands.

Operators' chairs are on rollers; the bookkeeping machines move back and forth on imbedded tracks, enabling each operator to reach the entire contents of five to six posting trays. Each battery holds approximately one day's work for each operator—simple, convenient and flexible.

Every De Luxe installation—large or small—is planned for the utmost economy and efficiency in actual daily use. Your stationer is your nearest De Luxe representative. He will help you plan to save time and money with De Luxe record-keeping equipment.

WILSON-JONES COMPANY
NEW YORK CHICAGO KANSAS CITY

The De Luxe line of record-keeping devices and systems contains equipment for pen-posting as well as machine bookkeeping installations—for the new visible as well as conventional systems. Your stationer will gladly furnish complete information. Ask him. Or the coupon will bring it by return mail.

WILSON-JONES COMPANY CM-11-30
3300 Franklin Boulevard, Chicago, Ill.

Please send complete information concerning De Luxe records and record-keeping systems.

Name____________________

Address____________________

City__________ State__________

My Stationer is____________________

SERVING BUSINESS THROUGH PROGRESSIVE STATIONERS

CREDIT MONTHLY

The National Magazine of Business Fundamentals

CONTENTS FOR NOVEMBER, 1930

■ Looking Ahead

In December, Phillip W. Haberman, vice-president and general counsel of the Commercial Investment Trust Corporation, will contribute to CREDIT MONTHLY one of the most important articles yet written on instalment selling and financing.

The second article in the Gold Star Credit Department series will be contributed by E. C. Gayman, general credit manager of the Sperry Flour Company, San Francisco.

Mr. F. M. Smalley, president of the Glens Falls Insurance Company has an article appearing in the December CREDIT MONTHLY entitled, "The Insurance Agent Reaches His Majority". This article should be of prime interest to every CREDIT MONTHLY reader.

The series of Pioneers in American Business and Industry will be continued with an article on Mr. George Eastman of Kodak fame.

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Nov., 1930

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Vol. XXXII
No. 11

..........Event and Comment..........

An Inventory Clearing-House

The Striking decline in silver prices from around 53 cents a year ago to 33¼ cents an ounce at the present time, the foreign gold shortage that is being stressed by so many economists, the uneconomic balance caused by World War debts, the pyramiding of stock values out of proportion to the real values have all been given as contributing forces to the present world-wide business recession. These factors have of course had their deterrent effects, but the fundamental cause both from a national and an international point of view is the failure to properly co-ordinate ultimate inventories that go direct to the ultimate consumer with the production inventories of basic industries.

Would it be stretching the imagination too much to contemplate what would happen if there were a national and international clearing-house of inventories? In this editorial, the analysis will be restricted to a national clearing system for inventories but the same principles would apply to an international system of a similar kind.

Producers of raw materials in this country cannot sell their products to manufacturing concerns whose outlets of dealers are overstocked and overinventoried. Suppose that every manufacturer could apply to an inventory clearing-house and find out at any given time with approximate accuracy the inventory total for his line and product throughout the country. This information would give him an accurate index for planning his production, and in turn give definite information to the producer of raw materials concerning the present and future supply of the manufacturers to whom he sells. The establishment of such an inventory index figure would be one of the most far-reaching innovations in present-day business. Domestic wholesale prices would then fluctuate in the same ratio that raw material production and manufacturing fluctuate. There would be no such rise in wholesale commodity prices against the constantly growing surplus of raw materials and inventories which in time overbalances the machinery of supply and demand and brings on a recession.

How many manufacturers and wholesalers attempt to determine the total national inventory of the product they are selling, and use this determined figure as an index for their plans? The inventory items on financial statements are used to determine turnover, merchandising ability and the general soundness of a business. There has been no real and concentrated attempt to bring inventory figures together to reveal what those two economic tricksters, supply and demand, are going to do.

One of the smaller industries in this country through co-operation should be able to determine the approximate total national inventory and thus formulate a definite basis for production and manufacturing from the raw material to the completed product stage. Such a program worked out would put supply and demand on a much more scientific basis. Isn't one of the secrets of a more or less permanent business stabilization through some such method as an inventory clearing-house and a means of determining an inventory index number?

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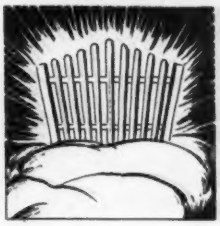
Arizona or Heaven

Four years ago a student just graduated from a theological seminary received from three New York specialists this prescription: "Arizona or Heaven." For seven years this young man had been working and studying to develop a theological and educational background that would equip him to enter his chosen field with the best possible preparation that he could get. But at the end of seven years poor health, caused by overwork and insidious, undermining germs, left him with an *exit* from his plans and preparations and not with an *entrance* to them.

What did he do? Arizona, in his case, offered about one-tenth as many possibilities as the eastern parish to which he had been called. The doctors gave him two years to live if he didn't go to Arizona—the prospect of a ripe old age if he did. But he interpreted life not in terms of years but in terms of results. Through cold mathematical calculation he determined that he could accomplish more in two years in the eastern parish than in a lifetime in Arizona. He said, "Why Arizona? I can do more here in two years than in forty in Arizona. I won't be sidetracked from my original purpose—and I have to wait only two years to get to heaven." Today four years later he is strong, robust and one of the rising leaders of his denomination. "Since I'm scheduled to die anyway, why not work myself to death?" he reasoned. And in working himself to death he worked himself back to health.

This young man did not veer a jot from the fundamentals that bring achievement. Although it seemed to be a matter of life and death, he refused to be sidetracked from his original purpose—the purpose which he had reinforced with seven years of study. I have always been convinced that a man can make

his fate if he refuses to let his fate make him. The theology student made his own fate through a steadfast determination to "follow through"—even to heaven. But the one significant fundamental ranking above all others is the measurement and evaluation of life in terms of results instead of years. We have come to put too much emphasis on time. Employees appraise their working days as a nine to five proposition rather than from the viewpoint of units of results obtained. Executive owners of business are responsible for this attitude. It is to your personal advantage to shift your life emphasis from time to results—to make your fate instead of letting your fate make you. And if it becomes a question of "Arizona or Heaven"—say "Heaven," whether or not you expect to go there.



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Sleeping Samsons

FOR TOO MANY years the Credit Department has been the police force for business. Too long have chief executives looked upon the credit department as the brake against the wheels of salesmanship. When the wheels of salesmanship have turned too fast, the sound, conservative principles of the credit department have acted as a brake, and in fulfilling this purpose for which it was created, the Credit Department has been the center of many attacks.

The credit executive no longer administers credit, he merchandises credit. With the credit executive's knowledge of the financial status of customers and the multiplicity of economic conditions affecting the customer, he is in a much better position to formulate the merchandising policies of his company than is the sales manager. The place to get an accurate potential for a company's sales is from the credit executive. The next five years will see the credit department come into its place of full power and recognition *provided* credit executives merchandise their credit departments to the business men of the country.

How many credit executives draw up an actual plan of how the credit department can help the company increase its sales and at the same time put sales on the books that are not subject to the usual loss ratio? How many credit executives insist on having a word to say in regard to the sales and advertising policies of their companies? Not many,—and why? Because they have never demanded the right that is inherent in the very nature of their duties. They have checked credits, not merchandised credits. They have been content to serve as brakes against high pressure sales rather than as a motive power behind a sound sales volume. The president of a great midwestern utility company recently made the statement that in most cases, credit departments were "sleeping Samsons". It is high time for credit executives to wake up, see the real situation, play the role they are advantageously situated to play and then let business in general see what they see. How soon these "sleeping Samsons" awaken to a position of greater recognition and power depends upon the credit executives themselves. What are you going to do to start the awakening?

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Can You Stand Prosperity?

HARVEY FIRESTONE in this issue of CREDIT MONTHLY says: "Only one out of every hundred men can stand the test of prosperity without losing his sense of values and fewer still can face adversity without digging in."

The man who can answer affirmatively the question, "Can you stand prosperity?" probably has a better chance of succeeding than the man who can affirmatively answer the question, "Can you take hard knocks?" There are many, many men who have gone through the early struggles and hard work necessary to place them well up on the rungs of achievement's ladder, but the higher they go, the dizzier they get. They lose their sense of values completely. Hard knocks require grit and persistance. So does prosperity, but prosperity demands something else.

There is a maxim which exemplifies the tragedy of almost being successful: "Upon the plains of endeavor will be found the bones of countless millions who having reached the threshold of success sat down to wait, and waiting, died." Take ten outstanding men in this country whose early lives were fraught with hardships and work. You can find a million men whose early lives were just as difficult. A careful analysis would no doubt disclose the fact that the majority of these men sat down to rest in the warm sunshine of prosperity and never passed across the threshold of success.

Hard work has too long been the basic criterion of success. There has been more hokum and bunk published about the efficacy of hard work than any other so-called principle of success. It is important, yes, but there are other qualifications still more important. Somewhere up the ladder is the rung that most men never pass. Most success stories point out the fact that it is the early struggles and the first rung of the ladder that take a man to the top. Most business men face these first rungs with about the same amount of courage and downright hard work to their credit, but up near the middle of the ladder is the rung of prosperity. They never get past. They become over-balanced, lose their sense of values and so join that vast army whose bones are bleached white on the plains of endeavor.

"Wipe Off the Windshield!"

THE business machine is just as good as ever. The tires are in good shape and full of air. The gas tank is full. The pistons aren't clogged with carbon. The engine is well oiled and runs smoothly with that steady hum which is indicative of reserve power and acceleration.

But the windshield is dirty and speckled. The business machine has just come through a storm. There were bad roads, chuck holes, sharp turns, detours, much shifting of gears. Dirt, muddy water and dust splattered the windshield.

With menacing clouds still hovering, the business machine comes out of the storm on to a stretch of hard, solid pavement. Now is the time to *wipe off the windshield*, shift from low through intermediate to high, and put full speed ahead to outdistance the threatening storm clouds of gloom that are still racing overhead.

Is business going to start ahead with a dirty windshield that makes it difficult to cut corners that mean economies in production and distribution? Will dirty windshields prevent drivers from seeing clearly the road ahead and taking advantage of the curves, the steep grades and the long straight stretches? Will dirty windshields make the drivers slow down in order to see highway markers and follow the most advantageous routes?

If the business machine is in working order why not wipe off the windshield and start the upgrade climb that leads to the plateaus of stability and prosperity? *There was more money in the United States on September* 1, 1930, *than on September* 1, 1929. The total amount of money in the country is around four billions of dollars but our purchasing power is over twenty times that amount. So it isn't a question of how much money we have but how often that money is *turned over* in production, distribution and consumption. Even with the unemployment situation at a critical stage, the country's potential purchasing power is virtually as great as when we were at the height of our prosperity.

Overproduction and a world-wide lowering in commodity prices are crying for "Turnover—turnover." Our eighty-nine billion dollar national income is crying for "Turnover—turnover." Purchasing power depends upon turnover. It is the necessity of "getting things moving" that has influenced the widespread "BUY NOW" campaigns throughout the country. But the "BUY NOW" machine, like the business machine, can't be driven ahead with any speed until the windshield is wiped off.

In one middle western city a rather startling revelation grew out of the "Buy Now" campaign. The treasurer of a large wholesale house had occasion to sell to five department stores who were conducting and publicizing "Buy Now" efforts. He had the inside dope on what these department stores were doing. Three of the stores had cut purchases fifty per cent. and were unloading old stock—and even, in some instances, taking on distressed merchandise. For three months one store had scarcely bought a thing. The fifth store was below normal. Most of the employees working for the wholesale house had been customers of the department stores but their purchasing power had been crippled through the lay-offs the wholesale house had to make. The "BUY NOW" campaign sounded good in theory but it had many counteracting weaknesses.

Business cannot expect the consumer to carry the burden alone—to start the ball rolling. "BUY NOW" works both ways. Psychology created by publicity isn't going to make John Doe buy until he sees that activity is increasing all along the line. Wiping off a small arc of the windshield with "BUY NOW" publicity isn't going to start the business machine upgrade at full speed. All the ultimate consumer wants is "proof"—an answer to the question of world-wide over-production in raw materials, an answer to the riddle of idle money, etc. He doesn't demand an immediate solution to the problem—only a proof that a sound solution is forth-coming. Then he'll buy. *Business men—wipe off the windshield!*

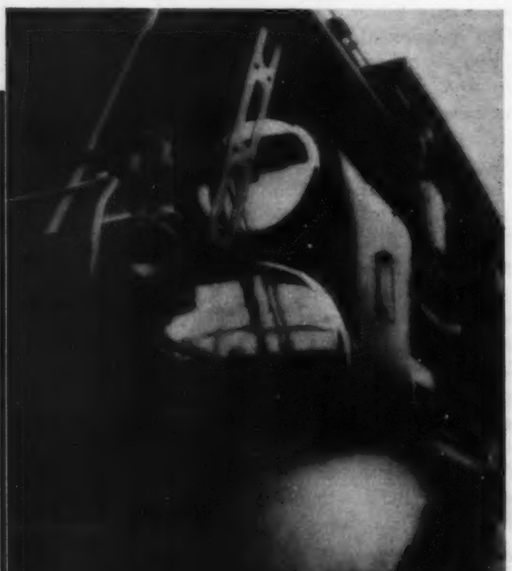
Where Is Business Going and

THE article "Wipe Off the Windshield" on page seven covered some of the highlights of worldwide factors that have contributed to the present depression. The analysis on these two pages is specific and relates to economic factors within the country that reveal causes behind the business recession. Answers to these questions, as given in the accompanying composite tabulation, also afford clearcut interpretations of what business is going to do.

Distressed merchandise, which is covered in question one, brought out serious implications existing in many lines of business. A letter sent in with one questionnaire described the acute situation that distressed merchandise is causing in the furniture industry. In one city there were eleven openings within two months of temporary sale and auctioneering headquarters for furniture. On large, conspicuous signs was the invitation, "Dealers Invited". And the dealers came—buying at fifty or sixty per cent. off consignments of distressed merchandise while the wholesaler and manufacturer were left "holding the bag". Multiply this case several hundred times, determine the far reaching ill-effects on production and purchasing power, and give your answer to the question, "Why isn't business getting there?"

Many executives answering the questionnaire admitted that they were buying goods and giving payment by note and trade acceptances, even though the payments could be made in cash. They are waiting—holding cash in reserve until they see what happens. In several cases the interest charges were considered as justifiable on the basis of risk involved in letting loose of ready cash. "We know our customers who could pay cash and others who are able to discount are paying us with notes and acceptances. For a short period, we're going to do the same thing and see what happens." Some of the reasons presented for actions of this kind, and many others, are not quite logical. Neither is there any logicality in the business situation caused by a multiplication of these circumstances.

Over production contributes so many root causes to business depression that it is thoroughly astonishing to learn that 34.3 per cent. of those reporting are doing nothing to curtail over-production. A much higher percentage would probably obtain throughout the country. 26.6 per cent. are doing the one logical thing that is economically sound—that is, balancing production with sales. The closing of plants, less buying, laying off employees and shorter hours are the results of a failure to balance production with sales. In the answers to question ten, we find the crux of the matter. For the past ten years, the emphasis has been on production—on quantity manufacture and low unit costs through mass economies. The big question facing business, as revealed in this survey, is what is being done to curtail over-production. The answers to question ten tell the story.



"Getting Under Way"

Hand-to-mouth buying always presents many interesting angles. 85.5 per cent. of the 1200 companies reporting said that they have been affected by hand-to-mouth buying policies prevalent in most industries at the present time. Only 14.5 per cent. have felt no reaction from hand-to-mouth buying. After a vast reservoir of commodities has been stored up, hand-to-mouth buying naturally chokes the flow from the reservoir and does not enable industry to move its heavy reserve of commodities fast enough to compensate for the production expenditure on the stored up goods.

There are many sound reasons to indicate that instalment buying has influenced a heavy percentage of consumers to purchase at one time approximately what is going to be needed over a period of one or two years. This heavy immediate demand causes a pick-up in business, and production is increased accordingly, but when a rather liberal instalment privilege has allowed the consumer to buy at one time, or within a comparatively short period of time, enough goods to meet his requirements over an extended period, he is forced to resort to hand-to-mouth buying until the obligations he has assumed through instalment purchases are liquidated.

This brings us to one of the critical aspects of the present business situation. Instalment selling has contributed to an inflation of purchasing power which in turn has stimulated production. The necessity of meeting these obligations forces the consumer into a position of hand-to-mouth buying which restricts purchasing power and slows up economic activities. Hand-to-mouth buying has affected most industries because a consumer saturation point has been reached temporarily. During the past ten or twelve months the waters have been slowly receding from the saturation point on the gauge in the commodity reservoir. As this transition movement continues it tends to bring about an economic situation where the demands of the buyer are about even with or just a little stronger than production is able to meet. Herein

When Is It Going to Get There?

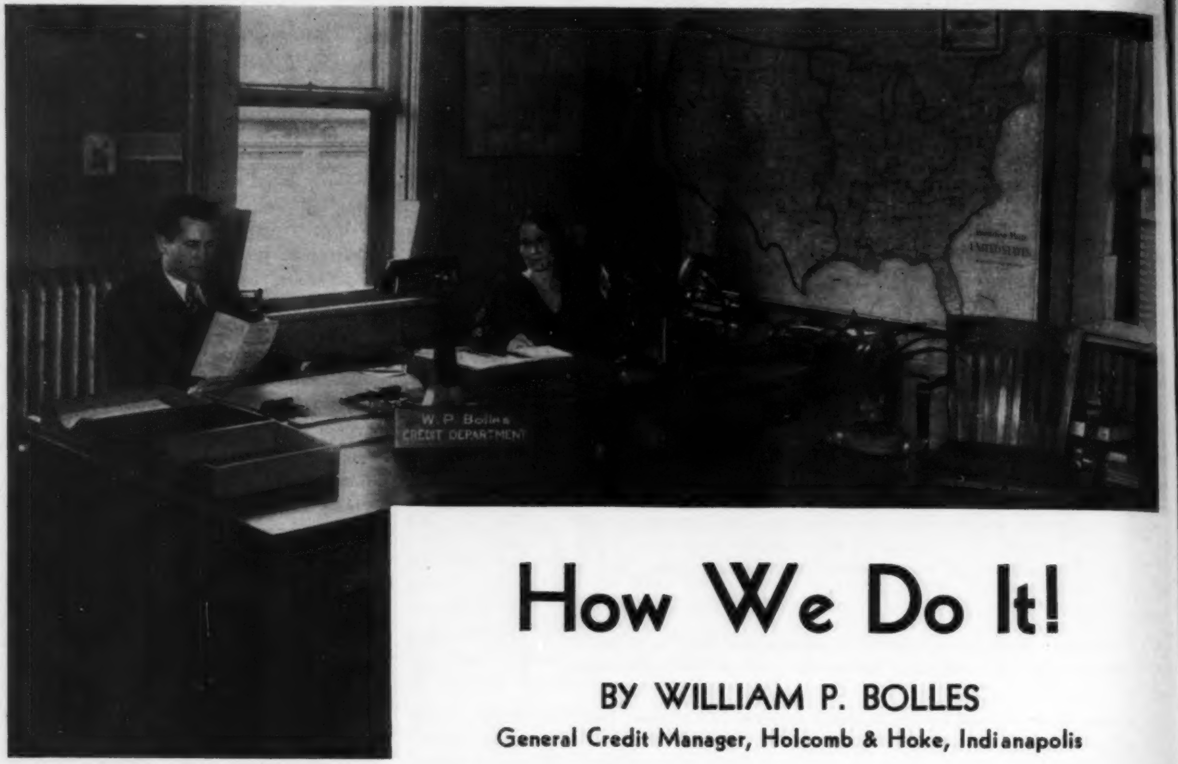
Summary by percentages of responses to Credit Monthly questionnaire given by 1,255 concerns engaged in various lines of business throughout the country:

1. Has the sale of distress merchandise of the type you offer affected your industry?	Yes	43.0
	No	57.0
2. Are there any indications, on the part of concerns with whom you deal, of abusing credit privileges due to overproduction and forced sales?	Yes	36.3
	No	63.7
3. In your opinion, has the present low money rate caused concerns in your industry to expand plants, machinery and equipment to an extent which will create conditions of overproduction in the future greater than in the past?	Yes	4.9
	No	95.1
4. Is there a tendency in your industry to move merchandise out of inventory into receivables to improve the manufacturers' position with banks?	Yes	43.4
	No	56.6
5. In view of the national business recession, have you changed your credit policy? Have you broadened it or restricted it?	No change	16.3
	Broadened	31.1
	Restricted	52.6
6. Are you charging off doubtful accounts in accordance with the same standards as formerly, or are you holding them open for a return of normal business activity?	Same	90.0
	Holding	10.0
7. Do you believe that your loss ratio will be lower or higher this year than it was in 1920?	Same	18.8
	Lower	25.7
	Higher	56.2
8. Have you been affected by the hand-to-mouth buying policies apparently prevalent in most industries at present?	Yes	85.5
	No	14.5
9. How do you estimate your fall and winter sales will compare with the same period last year?	Same	18.2
	Lower	65.1
	Higher	16.7
10. What action is your industry taking to offset or curtail production?		
A. Nothing		34.3
B. Curtailing production		2.0
C. Buying less		4.8
D. Some plants closed		8.7
E. Laying off employees		19.0
F. Shorter hours		4.6
G. Balancing production with sales		26.6
11. What are you doing to help maintain the buying power of the public?		
A. Nothing		8.2
B. Increased advertising		7.2
C. Lowered prices		12.7
D. No reduction in wages		30.6
E. No reduction in workers		23.0
F. Increasing personnel		2.7
G. Part time		11.5
H. Reduced wages		.8
I. Reduced workers		3.3

lies the hope for business recovery. A maintenance of this balance will insure a steady progress, uninterrupted by chasms of depression.

Examine briefly a few of the factors that have brought about the acute problems of over production and weakened world buying power. Consider the catastrophic choking of the world's throat of consumption by overproduction in raw materials. A few figures:—the average world production of sugar in five years (1909-1914) was 19,363,000 short tons, while the production in two years (1929-1930) will reach over 29,970,000 tons; over a period of fifteen years Canada and Australia have doubled their wheat acreage, while the United States has increased its acreage over twenty-five per cent.; in four years rubber productions has increased over twenty per cent. and copper and tin over thirty per cent. each; there was a year's supply of coffee on hand when this year's crop was ready for harvest. Analysis of almost every basic commodity shows this world wide glut. Is it any wonder that the world is gulping and choking with this overproduction when population growth and ramified consumption have not kept pace?

"Getting Under Way"



★ Mr. Bolles at his desk headquarters

How We Do It!

BY WILLIAM P. BOLLES

General Credit Manager, Holcomb & Hoke, Indianapolis

★ In this article Mr. Bolles gives a complete and comprehensive description of the credit department and credit and financial activities of Holcomb & Hoke. The department organized and managed by Mr. Bolles is considered one of the most efficient and outstanding credit departments in the country.

★ This is the first of a series of articles on Gold Star Credit Departments. In coming issues Credit Monthly will present analyses and descriptions of other departments meriting the title, "Gold Star Department."

OVER thirty-four years ago J. I. Holcomb and Fred Hoke, owners and backers of the Holcomb & Hoke Manufacturing Company began business in a rented barn loft. The fundamental principle upon which the business was founded was that of designing, manufacturing and selling equipment that would increase sales and profits for merchant-purchasers. From that basic principle and policy the company has never departed.

The chief products at the present time are the Butter-Kist automatic popcorn machines, peanut toasters, sandwich toasting equipment, light lunch units, Freezer counters, and the Electramuse, a coin-controlled, continuous playing, amplified phonograph. Freezer counters are used principally in grocery stores, meat markets and delicatessen shops, and are manufactured for use with mechanical refrigeration as well as for refrigeration by means of ice and salt. The Electramuse and the Freezer Counters are merchandised on both a retail and wholesale basis. These products are sold throughout the entire United States and in all foreign countries. The Company has an invested capital of $2,500,000 and a sales force of nine hundred.

Holcomb & Hoke has pioneered in instalment selling, having in 1903 originally manufactured and sold Box-Ball Alleys, an automatic bowling alley, on a conditional sale basis.

A great many of the retail sales are made on the instalment basis with the usual down payment. With some products selling as high as $1,250., and with some of the accounts running into thousands of dollars, a thorough credit investigation is made even though title in the merchandise is retained. The balances on the accounts run from ten to twenty-four months depending on the product, the down payment and the nature of credit risk. All customers sign a promissory note and a conditional sales contract, or a chattel mortgage, depending on the law of the particular state in which the sale is made. In order to keep up-to-date on the laws of the states we use the Credit Manual of Commercial Laws and also the service published by Prentice-Hall and the Uniform Sales Service Co., both of New York city. Extensions of credit run up as high as $25,000. both on open account and on an instalment basis.

Many business men have the idea that selling goods under a conditional sales contract does not require the services of a highly-specialized credit department; but the founders of this business have a different idea developed through their long association with this class of credit. They do not want to make two or three, or maybe more sales in order to profit from one unit. They firmly believe that the Credit Department, notwithstanding the fact that a goodly portion of the business comes from instalment sales, is absolutely indispensable; and that credit should be checked as carefully and as thoroughly on an

instalment sale as though the sale were made on open account.

This is one business where the Credit Manager can discuss credits with the Sales Manager, and with the information obtained draw his own conclusions as to what should be done with a particular order. Usually, if we cannot accept the business offered on regular terms, we can figure out some other basis upon which to take the order: with an endorser, a guarantor, or additional collateral. Seldom do we have to say "no" to the business and stick to it. The utmost harmony prevails between the credit and sales departments.

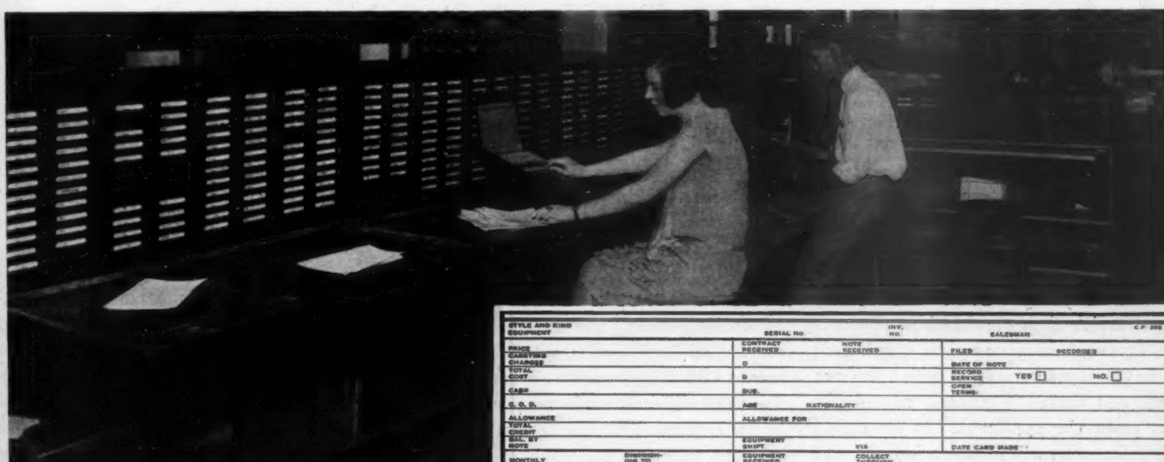
As General Credit Manager it has been my aim to promote the sale of the company's products by educating the salesmen to approach the right kind of prospects. Most of the orders received are from customers who have never been on our books before. Each one therefore, is a new problem for the Credit Department. I think Mr. Charles Nagle of the Toledo Scale Company has the right idea. He calls his credit department, "Credit-Promotion Department." Every order upon which credit is refused or about which there is any question is discussed in conference by the Sales Manager and myself. There is no high-handed turn-down of any order, and a meeting of minds is obtained before the business is refused.

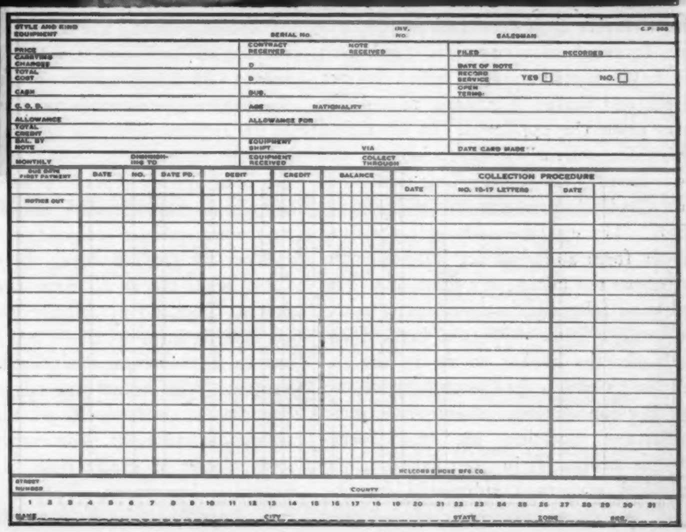
One of the illustrations from Holcomb & Hoke's "Good Will Folder" is reproduced above. This four-page leaflet is sent to every new customer to familiarize him with the credit policies of the company. The folder urges the customer to take advantage of the company's discount offer. A full page is devoted to an explanation of how instalment payments are to be made, in case the customer prefers this method of payment.

The Company publishes a monthly sales booster which is distributed to all the sales force. The Credit Department uses the pages of this publication to lay before the sales force ideas for obtaining orders from customers who are good credit risks. The Sales Department is always ready and willing to send out letters of general interest on credit subjects. This is real co-operation between the sales and credit departments.

In today's business world, where virtually all business is based on credit, and influenced and affected by elements of credit granting, a credit department can be as important in an organization as it wants to be, or as the ambition of its head wants it to be. A business house which has a bank account should certainly permit the credit manager to pass upon the strength and soundness of the banking institution in which the account is carried. The credit department should pass upon warehouses, brokers (particularly freight forwarders who handle foreign shipments), insurance companies of all types. In fact, in any case where there is any element of credit administration, the credit executive should be vested with that responsibility. If he doesn't have it, he should fight to get it.

A great deal of dependence is placed on the collection department of any house selling on instalments and this collection department has to be imbued with the sales idea. Purchasers become unsold as time goes on and they have to be resold. This is the painless method of extracting money which is due and the best part of it is, it keeps the customer. Any house which has a loose




STYLE AND KIND EQUIPMENT | SERIAL No. | INV. NO. | SALESMAN | C.P. 300
PRICE | CONTRACT RECEIVED | NOTE RECEIVED | FILED | RECORDED
CARRYING CHARGES | D | DATE OF NOTE
TOTAL COST | D | RECORD SERVICE YES ☐ NO. ☐
CASH | DUE | OPEN TERMS
C. O. D. | AGE | NATIONALITY
ALLOWANCE | ALLOWANCE FOR
TOTAL CREDIT
BAL. BY NOTE | EQUIPMENT SHIPT | VIA | DATE CARD MADE
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NOTICE OUT
HOLCOMB & HOKE MFG. CO.
STREET NUMBER | COUNTY
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
NAME | CITY | STATE | ZONE | SEC.

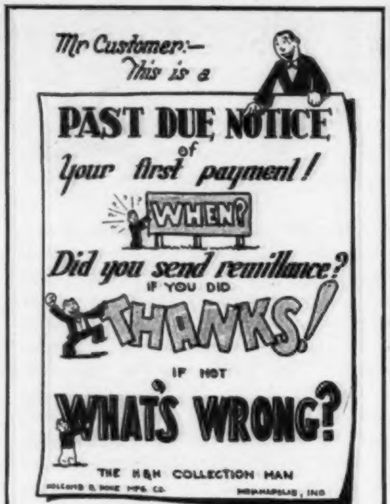
The photograph shows part of the machinery of the Collection Department. A follow-up record card (reproduced herewith) for each account is filed in Kardex-Rand cabinets, placed on specially constructed trucks, which are wheeled into a fire-resistive vault each night.
A different colored record card is used for each product. Both sides of the cards are utilized. The side reproduced herewith carries the current collection record. The other side carries the bad and doubtful record. The actual size of these cards is 6 inches x 8 inches.

The collection reminders on this and the facing page get Holcomb & Hoke's message over to its debtors in a forcible and striking manner. These are some of the steps in the company's collection procedure described in detail in this article.

credit policy should certainly have a go-getting collection department. Naturally enough, a business organization handling open lines of credit up to $25,000 must have a well organized and capable credit department for obtaining information as to the character, capacity and capital of the applicants for credit.

The collection department of our business is organized along sales lines. Every letter aims to be a sales letter as much as it is possible to make it. We try to maintain the sales attitude. There is plenty of room for education of the average consumer purchaser as to a conditional sale. Anyone who buys goods on a conditional sale basis is just as much obligated to pay for them as if they were purchased on open account.

In my estimation, instalment credit granting is based on the answer to the question, "Can the purchaser meet the instalments out of current income?" It isn't so much a question of whether he is good for a line of credit in the total amount of the unpaid balance to be met in payments, but whether or not he has sufficient daily, weekly and monthly income out of which to meet the payments as they come due. That is the thing we try to find out about every applicant who comes to us for credit. It is therefore necessary that we obtain adequate information on each customer. Another thing, we must hurry things up, as our salesmen work on a strictly commission basis. They must receive their commissions promptly. To avoid delay and get a quick flash we have adopted a system which fits our needs and makes it possible to quickly pass upon the applicant. In obtaining this "file starter" information we use two forms, "Customer's Questionnaire" and "Bank Request for Credit Information." The applicant fills out the customer form and signs it. The salesman witnesses the customer's signature. The salesman takes his customer form to the customer's bank with the bank form and asks the banker to verify the information which the customer has given us. We consider the following the most important question on this form: "Please advise, if, in your opinion, the attached statement submitted by the above is approximately correct?" If the



answer is "Yes" we can then take the customer's statement at approximately its face value. The customer form is used not only for credit purposes, but the collection department uses it to good advantage. We teach our salesmen how to get these forms filled out correctly and insist on their getting the information. They understand that a failure to send in these reports makes delay in getting information and therefore, their checks. With the general idea in mind any credit manager can work up his own form, but all salesmen should be instructed how to fill in and use the form.

Special Credit Folders

We have a special folder for our credit files. This folder contains nothing but credit information or correspondence relative to credit information. We think our credit files are complete. We endeavor to get a complete picture of the applicant, the same kind of a picture the credit man would get if he were to investigate right on the ground. We use both mercantile agency services. If the ratings show too great a variance and the account is $1,000 or over we get both agency reports, otherwise only one. For customers who are not in business when ratings are made we use the Hooper-Holmes Bureau, New York City, with offices all over the United States. They do practically every kind of investigating work. They certainly are to be recommended to the credit manager who wants special investigations made, as they will get the answer to specific questions. For example, with some classes of credit risks, the liquor hazard is important. They will locate lost customers and lost equipment, make reports on prospective salesmen and employees and do virtually any kind of investigating work.

We use the Credit Interchange Service on customers rated $3,000 and when the account runs $750 or over. We get attorney reports in cities of 50,000 or under through the United States Fidelity and Guaranty Company, write direct to the references given us by the customer and use the forms of the National Association of Credit Men for financial statements. Wherever possible we obtain Trade Acceptances, using the standard form for that purpose. Certainly this complete credit picture is the essence of good credit granting. Complete information means that we can grant the line to which the customer is entitled. All this information is assembled in the credit file with a recapitulation sheet. We use this when the customer gives a financial statement on risks rated from $5,000 up. This sheet provides for seven recapitulations and permits the credit man to watch the progress which the business has made over a term of years. At present we revise our files on repeat customers every six months, but ordinarily once a year. These files are divided into active and inactive. Active customers are those who have made a purchase within a year.

After all the information is obtained, it is analyzed thoroughly, including the financial statement which has been partially analyzed on the recapitulation sheet. The *necessary* line is then placed on the account. We do not give lines which are peak, but only such as are absolutely necessary. This requires a review if lines have to be raised to take care of a past due account or if purchases exceed the first line. It also permits a credit clerk to handle all repeat business as long as the line is not exexceeded and payments are up-to-date.

Collection Follow-Ups

A collection department follow-up record card is made up as each new account is opened. These cards are carried in standard Kardex-Rand cabinets and are kept on specially constructed trucks. One side of this card carries the current collection record and as long as an account pays promptly and does not become 120 days past due it is considered a current account. We use different colored cards for each product. This cuts down our subdivisions. Cards are filed alphabetically in the current section and geographically in the Bad and Doubtful section. Our credit department handles all orders and all accounts for all products from the time

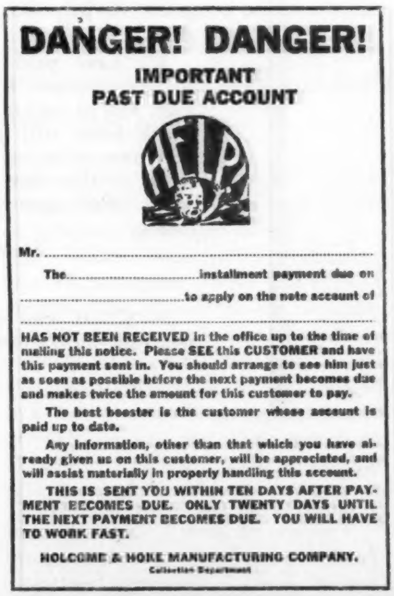
the order is received until we have collected the account or have a worthless judgment. The department is divided into three distinct divisions, Credit, Current Collection and Bad and Doubtful. The Bad and Doubtful Division has as a part of its organization a house attorney, all of the necessary legal services and adjuncts, and an incorporated collection agency.

The other side of the follow-up card carries the Bad and Doubtful record. These accounts are all 120 days past due or are bankruptcies, receiverships, decedents' estates, assignments or bad accounts caused by some catastrophe such as fire. We have adopted, as best for our business, what is called "the horizontal method" of arranging the collection division. The collection correspondents who handle the current accounts are thoroughly trained in writing sales and resale leters, straightening out grievances, overcoming objections, combatting resistance and writing a good collection letter. If at the end of 120 days these correspondents have not been able to convince the customer that he will eventually have to pay, the account is transferred to the Bad and Doubtful Section and a Bad and Doubtful transfer slip is written up. This slip is made out in triplicate, one copy for the Accounting Department to be carried as a suspense item, a green copy for the general file and the yellow copy for the credit manager. The yellow copies are filed alphabetically under each month. Recapitulations are made each month to determine amounts per product, percentages to total sales, number of instalment payments made, total cash received to date and unpaid balances. They also contain a brief resumé of the reason why the correspondent handling this particular account could not effect a settlement. They are carefully watched for any evidence of carelessness or lack of knowledge as to handling on the part of the correspondent.

The account is then handled by an entirely different correspondent in the Bad and Doubtful Accounts Division. This causes a complete review of the file. Sometimes the different style and signature will bring results. The account may be sent to an attorney or given to one of our own travelling factory representatives. If no results are now forthcoming the correspondent may recommend a law suit on a special form which is approved by the Credit Manager. He may recommend repossession and resale. If so he makes up a "Recommendation for Repossession Form" and has this approved.

Our travelling factory representatives have successful sales records. I think salesmen make better collectors than collectors make salesmen. Our collection problem is reselling the customer. They are given a concentrated training in service, sales and collections. These men travel entirely by automobile, cover the entire United States and Canada and work on a straight commission basis. When they cannot collect they either recommend suit or repossess the equipment and resell it. Our notes contain an acceleration clause and the travellers are instructed to insist on arrangements being made to pay the entire balance, not just what may be past due. In this way we eliminate call-backs.

The trucks carrying the Kardex Rand sections of follow-up cards are placed in a vault each night. We also have a scrap book containing a copy of all forms and if we should have a fire the Collection Department would function just as soon as the printer could make up the forms. All accounts are carried on these cards. They could be used as an accounts receivable ledger.


DANGER! DANGER!

IMPORTANT
PAST DUE ACCOUNT

Mr. ....

The.......................installment payment due on

.......................to apply on the note account of

....

HAS NOT BEEN RECEIVED in the office up to the time of mailing this notice. Please SEE this CUSTOMER and have this payment sent in. You should arrange to see him just as soon as possible before the next payment becomes due and makes twice the amount for this customer to pay.

The best booster is the customer whose account is paid up to date.

Any information, other than that which you have already given us on this customer, will be appreciated, and will assist materially in properly handling this account.

THIS IS SENT YOU WITHIN TEN DAYS AFTER PAYMENT BECOMES DUE. ONLY TWENTY DAYS UNTIL THE NEXT PAYMENT BECOMES DUE. YOU WILL HAVE TO WORK FAST.

HOLCOMB & HOKE MANUFACTURING COMPANY.
Collection Department

During the 120 day period in which the accounts are considered current they are followed up by the current collection correspondents with a complete series of form letters. But first of all we send out what we call our "Good-will folder." This is mailed in a plain envelope. It says, "Success in business is based upon the gain of the good-will of our customers." We are trying to sell our Credit and Collection Department. We want to be friendly. The folder also brings to the customer's notice our discount offer which is good any time up to the due date of the first payment, and on the back pages we explain how the payments are to be made. This folder is well worth its cost.

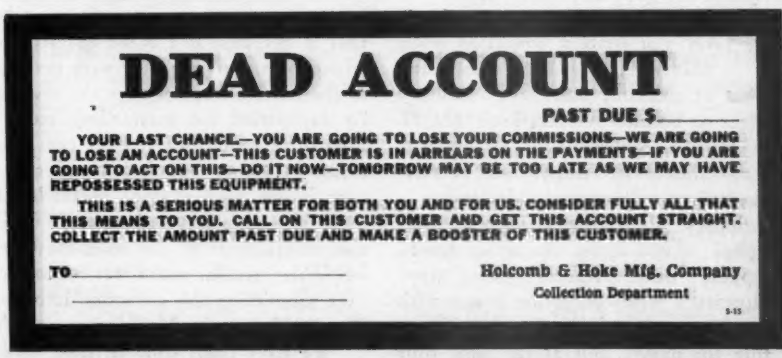
At the same time the "Good Will" folder is sent out we offer the customer's promissory note to the bank on the same discount basis, with the added statement that this offer is subject to acceptance by the customer. These notes are all sold without recourse.

Form Letters

The only excuse for a form letter is that it is a simplified and cheaper means of obtaining either a payment from the customer or of getting him to write in and state why he has not made payment. The only letters which are dictated are those which are in direct reply to letters which we have received from our customers. This eliminates much work.

Our method of sending out form letters is, we think, somewhat unusual. In the first place, the actual mailing and filling-in is all handled by the Stenographic and Mailing Departments. We bought a steel rack such as is used for automobile parts and keep our letters in this. The collection correspondent indicates by the form letter step number under the column "Collection Procedure" on the collection card just what step in the form letter series he wants to go out. He then places a black Kardex Rand signal on that account to indicate the day he wants that step to go out. The tray is then taken in charge

(*Continued on page* 38)


DEAD ACCOUNT

PAST DUE $________

YOUR LAST CHANCE—YOU ARE GOING TO LOSE YOUR COMMISSIONS—WE ARE GOING TO LOSE AN ACCOUNT—THIS CUSTOMER IS IN ARREARS ON THE PAYMENTS—IF YOU ARE GOING TO ACT ON THIS—DO IT NOW—TOMORROW MAY BE TOO LATE AS WE MAY HAVE REPOSSESSED THIS EQUIPMENT.

THIS IS A SERIOUS MATTER FOR BOTH YOU AND FOR US. CONSIDER FULLY ALL THAT THIS MEANS TO YOU. CALL ON THIS CUSTOMER AND GET THIS ACCOUNT STRAIGHT. COLLECT THE AMOUNT PAST DUE AND MAKE A BOOSTER OF THIS CUSTOMER.

TO________________________

____

Holcomb & Hoke Mfg. Company
Collection Department

S-15

"This Month's Collection Letter"

This is the third "This Month's Collection Letter" to be presented by Credit Monthly which, for particular reasons pointed out in the text below, is considered an effective result getting letter.

Get your money and help business get going—should be the ambition of every good collection letter written today. This month's collection letter has been selected because it not only maintains good will while getting the money but also ties in effectively with the present business situation. Every Credit Monthly reader is invited to send in any particularly original or effective collection letters that he uses.

Dear Mister Treasurer:

Have you heard the story of how one lone ten dollar bill cancelled ten debts in ten minutes? Here it is graphically:

A	owed	B	ten	dollars
B	"	C	"	"
C	"	D	"	"
D	"	E	"	"
E	"	F	"	"
F	"	G	"	"
G	"	H	"	"
H	"	I	"	"
I	"	J	"	"
J	"	A	"	"

The situation was stagnant. A did not pay B so he could not pay C and so on down the line. Finally A did pay B ten dollars and B paid off his debt to C with the same ten dollars and C to D and D to E, etc., until it reached J who paid his debt to A. Thus A had his ten dollar bill back again and each of the other nine cancelled his debt and went along merrily.

Increasing the circulation of money will do more to help business than any other single thing.

We have paid every bill due. We would like to continue to pay every bill, as we get a kick out of making others happy. But the old check book will give out if our good friends who owe us do not do their part. Can you send us $ that our records indicate is due from you? We'll pass it along and *keep it in circulation.*

Very truly yours,

________ ________.

P. S. If you can't send the full amount, send one-half—*something.*

CAN you write a collection letter that will get you the money and at the same time have a salutary effect on business stabilization? Mr. H. O. Hansen, Auditor, L. F. Grammes & Sons, Allentown, Pennsylvania, is writing collection letters of this kind.

Suppose Mr. Hansen's case were multiplied 30,000 times. In other words, suppose other readers of CREDIT MONTHLY wrote collection letters with the paramount purpose of course of getting the money, but at the same time stimulating the psychology of turnover.

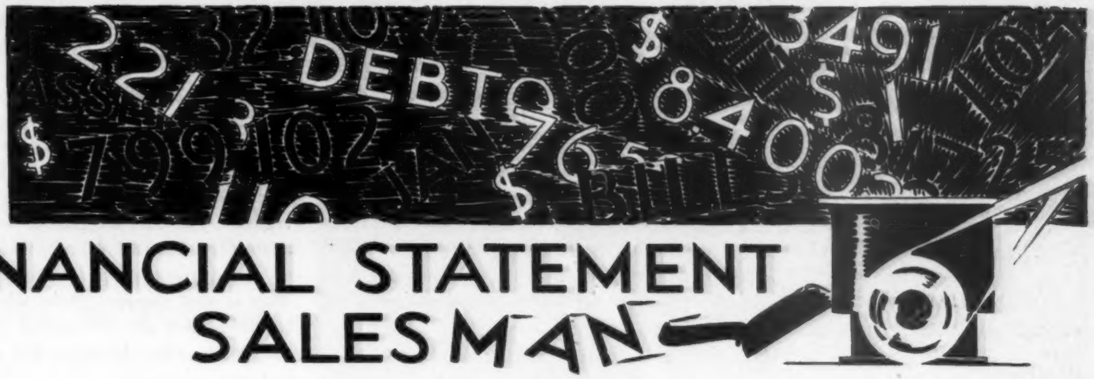
Turnover of goods is one of the basic factors of mercantile success, and turnover of money is absolutely fundamental to business prosperity. Every debt that is not paid is a brake against the wheels of turnover. If it were possible to shorten by only 20 days the average 70 day period for outstanding receivables there would be a 28 per cent. increase in money circulation and turnover, which feature alone would be of major importance to an increase in business transactions by the manufacturer, wholesaler, retailer and direct consumer.

In submitting this collection letter to CREDIT MONTHLY, Mr. Hansen stated:

"We have from time to time made various experiments in mailing pieces, that would appeal to the good will of our customers who have slowed up in meeting their obligations. Our object has always been to give them a message that is different,—something that will register and bring in their checks.

"I am enclosing a copy of a recent letter that brought about better results than any we have tried so far. This appeal was mailed to 250 accounts ranging from 30 to 90 days past due and our total returns registered better than 75 per cent.

"The most encouraging part was the fact that the letter brought home the bacon on 70 per cent. of the accounts in the 60 and 90 day classes."



FINANCIAL STATEMENT SALESMAN

By ALEXANDER WALL,

Secretary, Robert Morris Associates, author of "Ratio Analysis of Financial Statements," and well-known authority on financial statement analysis.

NEXT MONTH

Mr. Wall will give an example of fundamental analysis by comparative use of individual and trade ratios.

THE extension of credit progressed from a personal contact basis some thirty years ago to an almost entirely impersonal basis ten years ago. Technical credit men, in their endeavor to develop a science of credit granting, switched from an absolute reliance on personality to a far too great reliance on the technical facts. As the financial statement and its related profit and loss reports appeared to be pure facts, these technicians based their decisions almost alone on these facts. They ignored almost completely the personal or human element. As a result, there was perhaps an even greater separation between creditors and debtors in the human relationship. The statement was the measure and on its facts alone the creditor based his decisions. Statements were the guardians of credit.

A Measure of Strength

Almost at the beginning of this technical age of analysis the current ratio made its appearance as a measure of strength. In that its acceptance acknowledged the importance of proportion relation, rather than arithmetic relation, this was good. But having devised and accepted this one ratio, the worthy technicians promptly became non-creative and seemed content to go on measuring statements by this one proportion. Worse than that, one single ratio became more or less a rigid standard for all kinds of statements and in all kinds of conditions. Probably the policeman conception was largely to blame for all this. But the wily debtor recognized this tacit acceptance of such a standard and used it to his own advantage through "window-dressing" manipulations. Since a ratio of two dollars of current assets for each dollar of current liabilities had become standard, the debtor set out to show this proportion on his annual statement exhibit. There are many ways in which this can be done but one example should be sufficient for this discussion.

A certain manufacturer, knowing that his statement would not show a current ratio of two for one or better decided to do a little honest window-dressing. He issued very strict orders that his purchasing department was to buy or commit itself to no purchases of inventory during the whole month of December. His plant, however, was run full time and his sales efforts increased to the maximum. His collection department tightened up and even offered some special discounts in order to effect a few major collections. The incoming cash was used to retire or reduce bank loans and by December 31 he was able to issue the following legally honest statement:

ASSETS

Cash	$ 5,000
Receivables	150,000
Inventory	350,000
Total Current	$505,000
Plant & Equipment	250,000
Miscellaneous	75,000
Total Fixed	$325,000
TOTAL:	$830,000

LIABILITIES

Payables	$185,000
Taxes	15,000
Miscellaneous	25,000
Total Current	$225,000
Funded	100,000
Total Debt	$325,000
Net Worth	$505,000
TOTAL:	$830,000
Sales	$3,400,000

Investigating the Merchandising Scheme

This statement shows a current ratio of 2.25 to 1, and seems to indicate a sound financial condition. The particular credit man, however, who was analyzing this statement was unable to understand how the Company could transact $3,400,000. worth of business on an inventory of only $350,000. The sales on this basis are 971 per cent. of the inventory and this credit man's experience led him to believe that sales should run about four and one-half times the inventory. The result of this second proportion led him to investigate rather closely into the merchandising scheme of the company. The analysis was made about the 15th of January and he was particularly insistent on information covering merchandise purchases and commitments for merchandise since the statement date. This investigation led to the astounding discovery that during the first week of January the customer had purchased or committed himself to purchase $400,000. worth of inventory. When this condition was written into the January 1st figures, it produced a statement approximately as follows:

ASSETS

Cash	$ 5,000
Receivables	150,000
Inventory	750,000
Total Current	$ 905,000
Plant & Equipment	250,000
Miscellaneous	75,000
Total Fixed	$ 325,000
TOTAL:	$1,230,000

LIABILITIES

Payables	$ 585,000
Taxes	15,000
Miscellaneous	25,000
Total Current	$ 625,000
Funded	100,000
Total Debt	$ 725,000
Net Worth	$ 505,000
TOTAL:	$1,230,000
Sales	$3,400,000

The only difference in the two statements lies in the $400,000. merchandise commitment item, which increases the current assets to $905,000. and the current debt to $625,000. The current ratio of this second statement is 1.44 to 1 and the sales are 453 per cent. of the inventory. The analyst in this case was satisfied that the management was in no wise legally dishonest. It had merely attempted to produce artificially a current ratio that would be accepted by the analyst. The process of running off the inventory had developed a current ratio of 225 per cent. which fell to 144 per cent. when the inventory was returned to approximately a normal amount. In that there had been no commitments to purchase and no legal certainty that the inventory would be returned to normal, the accountants on this particular job had felt justified in certifying to the first statement as being correct. As a matter of fact, from the credit standpoint the condition as exhibited by the second statement above was a much truer credit condition, and incidentally, much weaker. The key to the situation was found in the second proportion, that of sales and inventory, which on the first statement indicated a merchandise turnover activity of approximately twice the expectancy for this kind of a company. This put the credit man on guard and by the introduction of this second proportional test, he was able to uncover a window-dressing operation.

Quite frequently window-dressing operations are discovered by testing several proportions instead of relying upon a single proportion. It is quite common in the more completely developed analysis to use seven or eight proportions as follows: the well known current ratio, the relationship between net worth and fixed assets, between net worth and debt, between sales and receivables, between sales and merchandise, between sales and fixed assets and the ratio between sales and net worth. When multiple ratios are used in testing, it becomes exceedingly difficult to adjust the figures, either honestly or dishonestly, so that all proportions will maintain themselves at points generally acceptable.

The experience of credit men in the crisis of 1907 started a movement that blossomed in 1920 and is probably coming into full fruition at the present time. As the technical side of statement analysis has developed, so that inconsistencies and weaknesses become more readily apparent, it is very often possible to detect weakening trends at a much earlier period than has formerly been the case. It is now a recognized fact that an estimate of the individual capacity of the management, or the human element, is just as important as a technological analysis of the figure facts. Neither of these factors alone is a safe basis for credit. In the famous Wallingford stories, high-pressure personality was able to sell worthless securities and inveigle people into enterprises doomed to failure. The super-technical analyst eliminated much consideration of personal ability and practically all high-pressure credit salesmanship.

Managerial Ability

If we are to assume that great managerial ability exists, then we may expect to find it reflected in efficient merchandising performance and increasing strength in the figure facts. When the figure facts indicate that the sales are abnormally low in comparison with receivables, merchandise, fixed assets or net worth, then the managerial ability of the concern in question must be low. Unless the management can produce sales, on a reasonable investment in these items, of a sufficiently great volume, salesmanship is not present, no matter how much we may wish to believe it present.

A new attitude has developed toward concerns whose statements indicate weakness. The old method of closing out a weak risk and taking a loss has changed to an attitude, at least among large creditors, that constructive cooperation in readjustment brings better results than forced liquidation. By a study of trades as a whole analysts have isolated trade characteristics. In a recent study, made in about ninety trade divisions from nearly five thousand statements, the writer found a rather interesting variation in proportions. While the data covers nine proportions, only one is offered here to show how any single ratio can vary between trades. The current ratio is used as an example. For each trade the median of the current ratio has been selected. This is that current ratio which is in the middle of all the current ratios for that trade, there being as many weaker as there are stronger in the trade. The median current ratio for ninety divisions of trade varies from 159 per cent. (1.59 to 1) to as high as 873 per cent. (8.73 to 1). Seventy-five per cent. of these medians are greater than 231 per cent. (2.31 to 1); fifty per cent. are greater than 261 per cent. (2.61 to 1); and twenty-five per cent. are greater than 300 per cent. (3 to 1). Twenty-five per cent. are between 270 per cent. and 300 per cent.

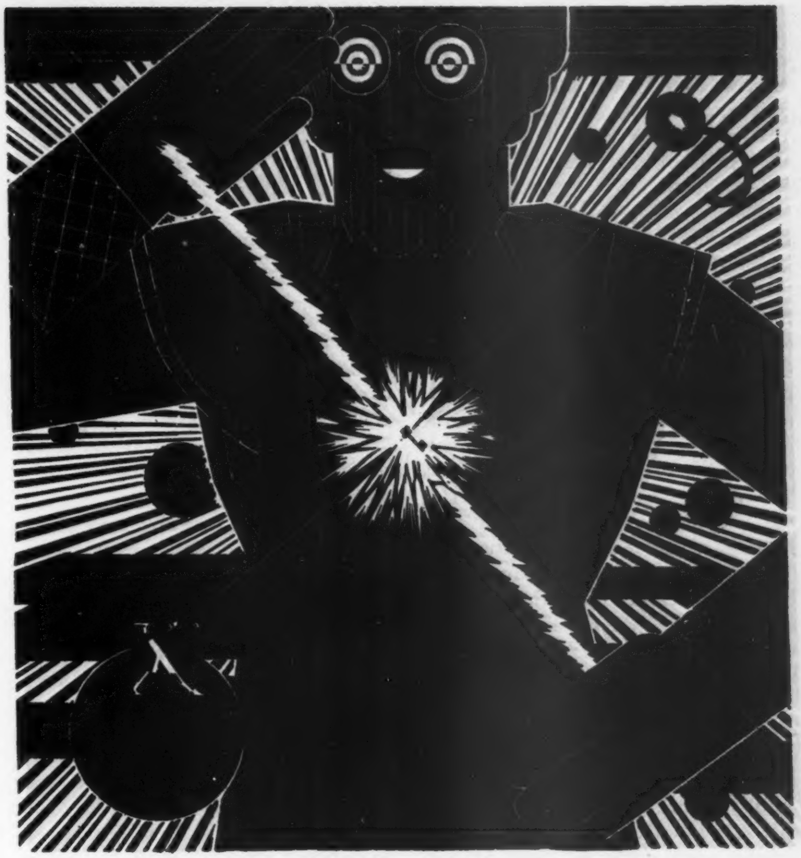
Like by Like

The modern analyst finds it absurd to accept a current ratio of 250 per cent. as good in an industry in which it is more common to find current ratios of 300 per cent. or better. He likewise is not insistent on a current ratio of 200 per cent. when the trade generally shows 180 per cent. as typical. We are beginning to measure like by like.

But the greatest step forward taken by credit analysts is the advisory attitude adopted in the use of these trade ratios. A company slightly out of line is not headed for liquidation. Its proportions are compared with the general ratios for that trade. Where strength is found, credit is given. Where weakness is found, suggestion for correction is given. The analyst is again studying human power through figure record. He is again recognizing that analysis should be constructive. He is selling his own concern by giving this constructive advice. Our best and easiest business comes from our present contacts, our present customers. The modern credit attitude is to continue with the good, help the involved to become good and shake off only the utterly hopeless.

(Note: Two examples of corrective suggestion through a fundamental analysis by comparative use of individual and trade proportions will appear in succeeding issues of the Credit Monthly.)

Many institutions, as Mr. Hill points out, in his article, use advertising to create good will as a basis for public credit and financing. This illustration is one of a series of institutional advertisements used by the Cleveland Trust Company to relate banking services to the future development of various industries.



How Advertising Creates Credit Standing

BY E. E. HILL

Treasurer, H. K. McCann Co.

CREDIT men are prone to deal largely with cold figures, which can reveal certain, but not all the financial facts of a business or individual. The credit man, worthy of the name, goes back of the mere figures of a balance sheet. He studies the assets scientifically; their nature; their liquidity; the average turnover of stocks and the inventory. But, does he concern himself with the advertising policies? Does he understand the value of advertising in its relation to credit? If an affirmative answer to the two questions can be given, relative to a credit man's ability, it attests the fact that he is, or would be, a valuable member of any business organization.

The public is apt to be cautious about something with which it is not familiar. Men will purchase certain kinds of hats and clothes because they have read and heard about them; women will demand food bearing a popular trade mark for the same reason. Advertising brings these commodities to the attention of potential customers; the merchandise becomes known and a market is created. A concern with an established market is a better credit risk than one without a sales outlet, therefore a credit manager should regard more highly the enterprises that have a market and are broadening their sales outlet by the use of paid space in magazines, newspapers and other forms of advertising.

Advertising is not magic. It cannot perform miracles. It cannot make a weak company strong. Yet an intelligent, consistent use of advertising will inevitably benefit the concern using it. Today, advertising plays an important part in American business; as a working tool it is used by the most successful companies, not only to increase sales but to establish the responsibility of the concerns in the minds of the buyers—in other words, to create the so-called intangible asset, good will. To abandon advertising would impair the success of any concern that had used it to build a market and name.

The extent of good will established by a concern provides a basis for judging "its credit with the public". For example: A clothing manufacturer guarantees that his product will wear for a certain number of months. There must be something back of that guarantee which will convince the customer that the product will give the service. If the customer has heard and read about the concern he immediately assures himself that there is a responsible guarantee behind the product—the concern's credit is satisfactory and he buys the merchandise.

On the other hand, if the service of the product is guaranteed by a concern, which has not built its market and name by advertising, the potential customer hesitates before purchasing because he does not know the responsibility of the manufacturer, distributor or dealer.

The credit manager should therefore be interested in knowing to what extent an applicant for credit has developed the factor of good will and responsibility with the public. It is a vital question in determining the applicant's ability to pay indebtedness when it is due.

It has only been within the past few years, that credit managers have seriously considered good will as a tangible asset. A decade, or so, ago it was considered a distinctly intangible asset, which would pass out of existence with

the termination of the concern's business operations. But there are trade marks in the business world today that were originally established by concerns now out of business, which goes to show that trade marks are really symbols for the extent of the products' good will with the public.

We see such representative concerns as the American Telephone and Telegraph Company using advertising to create good will as a basis for public financing—which, is, after all, a means of seeking credit. Almost one third of the total invested capital in the company is owned by men and women, who have been convinced, through advertising, of the responsibility and potentiality of development of the company. Thousands of investors are creditors of the telephone company through their holdings of its bonds and debentures.

Since 1924 the total amount of the bonds and debentures of the telephone company has increased almost $400,000,000 and the public has been eager to absorb the vast increase in credit.

For years the telephone company has been a large user of advertising—primarily to increase the use of telephone service. However, whether intentionally or indirectly, the fact remains that as a by-product, public financing, in other words credit, has been obtained more readily than would have been the case if advertising had not been used. The same holds true for many other public utility concerns, which are not only developing by advertising the good will of their customers but are building up a market for their securities.

Advertising has played a prominent part in the efforts of public utilities to increase their earnings by obtaining advances in rates from governmental bodies. In a number of instances, the question of raising the rates of electric light and street car companies has been placed before the people. Elections have been called to enable the citizens to vote on the question. The utilities requesting increases have been large buyers of advertising space. They have outlined their reasons for asking the rate raise which, if granted, would increase their profits, the primary factor in building a concern to a position where it can obtain credit.

For the voters to act favorably on the question, the good will of the concerns must first be established. Of course service to the public is the principal factor, but the only means available to make the fact known that the service is of the best, is advertising.

Credit managers of companies that have public utilities for customers, should investigate thoroughly the advertising activities of these utilities.

Utilities can easily be thrown into bankruptcy by the loss of the public's confidence, which can only be held by information given through publicity sources, relative to the business plans of the concerns. If a public utility is holding the confidence of the people, whom it serves, then, if other departments of the business are of the best, it should rate as a good credit risk. There is little likelihood of the concern hitting the financial rocks. But, if the concern has not created good will, then credit granting is a gamble on whether or not the concern will stay out of the receiver's hands and be operated at a profit.

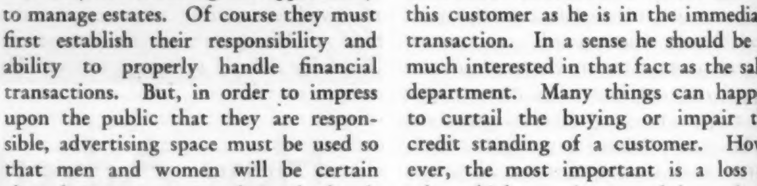
Banks are now extensive users of advertising space to induce men, women and children to deposit money in their institutions. Asking for deposits is just another way of requesting the public to lend its money to the banks. And when a concern or individual asks for a loan it means they want credit.

Trust companies advertise the fact that they are soliciting the opportunity to manage estates. Of course they must first establish their responsibility and ability to properly handle financial transactions. But, in order to impress upon the public that they are responsible, advertising space must be used so that men and women will be certain that their property is safe in the hands of trust company officials.

A person placing his estate in the hands of a trust company for administration is somewhat in the same position as the credit manager of a company selling raw materials to a manufacturer. The credit manager of a raw material concern ascertains the extent of the manufacturer's selling field and his probable profits, two factors which determine the firm's ability to pay its indebtedness. Advertising creates the selling field which results in the profits that determine the net worth of the concern. And credit is based on net worth. The responsibility of a trust company is determined by its capital and surplus, which, after the initial investment by stockholders, is built up by profits. Advertising is the means of bringing new business to the trust companies and new business adds to the profits, which in turn increase the net worth and financial responsibility of the trust company.

A credit transaction is one that defers payment to some future date. The debtor buys now with the knowledge that he will be able to pay when the time arrives. The creditor sells now with the knowledge that the payment will be made when due. The cold facts of a balance sheet disclose this ability to pay. But the credit manager should be as much interested in future sales to this customer as he is in the immediate transaction. In a sense he should be as much interested in that fact as the sales department. Many things can happen to curtail the buying or impair the credit standing of a customer. However, the most important is a loss of sales which can be caused by a business depression and not by any fault of the concern, or by causes existing within the organization. One of these causes is the decreasing of the advertising ap-

(*Continued on page* 40)



This chart shows the profit performance of 30 companies which increased their advertising in 1921, as compared with the profit performance of 46 companies which decreased their advertising in 1921. 1919 profits taken as standard and all profits figured on this base.

Does the "Panic" of 1930 Teach Us a Lesson?

BY H. J. DAVENPORT

President, Home Title Insurance Company and Midwood Trust Company, Brooklyn, New York

THE statement has been made that "no two successive panics ever occurred for exactly the same reason." It may be a logical statement. Is it not the tendency of human nature to close the stable door after the horse is stolen? However, the economic barn seems to have an infinite number of doors through which a horse may be stolen. When one door is closed, another door is left open.

In 1921, we suffered financial disaster because of a huge accumulation of unsold merchandise. Since 1921, this item has been carefully watched by financiers and business men.

In 1929, we suffered another financial setback—not because of accumulated unsold merchandise this time, but because, it is generally claimed, of accumulated unsold securities. This unsold security inventory was allowed to accumulate untrammeled.

Now, if this be true—and I believe it to be true—would it not be as wise to apply in the future to our national security inventory the same sound financial principles which in the last ten years we learned to apply to our merchandise inventory?

In its annual report to Congress this year, the Federal Reserve Board made these statements:

"The protection of Federal Reserve credit against diversion into channels of speculation constitutes the most difficult and urgent problem confronting the Federal Reserve System in its efforts to work out a technique of credit control that shall bring to the country such steadiness of credit conditions and such maintenance of economic stability as may be expected to result from competent administration of the resources of the system."

The Board showed that among the factors contributing to the growth of security loans was the change in the method of industrial financing. Favorable conditions in the capital market caused many corporations to issue a large volume of securities, in many cases in excess of immediate requirements, and with part of the proceeds to pay off loans.

"Purchasers of the securities in many cases borrowed a part of the purchase price and pledged the securities as collateral. As a result bank loans directly to industrial and commercial enterprises were relatively diminished, while loans on securities increased."

So stated the Federal Reserve Board.

Now here is a peculiar twist to the situation:

Bank loans to industrial and commercial enterprises are always for a definite period. Definite maturity is expected. Loans are constantly retired. Forced liquidation of such loans on a nation-wide scale never happens simultaneously—in a single day.

But bank loans on securities are usually on a "demand loan" basis—allowed to run indefinitely, yet subject to sudden call at any time.

The first method is based on tangible assets, and definite liquidation is always considered.

The second method is based on intangible market valuations, and no definite liquidation date is usually considered.

In 1926 the amount of new financing in the first quarter by investment trusts and similar finance companies amounted to $39,000,000. The following year it was $43,000,000. The rising popularity of the investment trust movement brought about an increase in new capital issues to $109,000,000 in the first three months of 1928, while last year the Winter months witnessed the flotation of $696,000,000 of investment trust and finance company securities.

Thus occurred a pyramiding of new security issues in a vast superstructure unique in our financial history.

If these new issues of recent years had been digested by popular subscription and had found their way into actual investors' vaults, would serious congestion have resulted?

Was it not an ominous fact that these new issues were undigested—not absorbed by the financial consumers, so to speak?

Were these security issues not carried after the fashion in which mercantile wholesalers and speculators carry unsold warehoused stocks—by means of borrowed funds, largely?

We know that smaller speculators resorted to commercial bank loans, in *too many cases.*

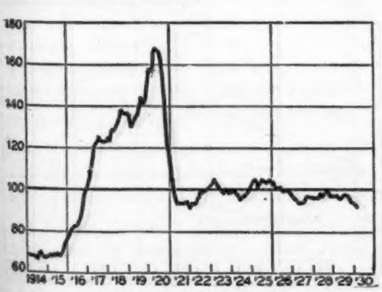
The increase of brokers' loans before the stock market crash was steadily from $3,810,023,000 on January 4, 1928 to $6,634,000,000 on October 23, 1929.

Not all of these loans, it is true, were "demand loans" carried for an indefinite period (until the last week of October 1929). But a sufficiently large portion consisted of "demand loans"—sufficiently large enough to have its effect! Everybody knows what that effect was.

Now, how can we close the stable door which was left open in 1929? (Left open, I may add, in 1901, also, if I remember rightly.)

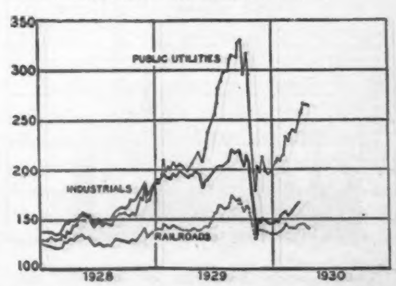
I do not believe we need hold to account the Federal Reserve or its interest rate policy. The blame may lie in a

What happened to commodity prices due to stricter control since 1921:



Bureau of Labor Statistics Monthly Index of Wholesale Commodity Prices (1926—100 per cent.)

What happened to security prices in the absence of stricter control since 1928:



Price Movements of Industrial, Railroad and Public Utility Stocks (Standard Statistics Company weekly indexes).

fallacious trend of banking thought on these subjects.

Why cannot American bankers regard loans on security collateral in the same manner as they regard loans on merchandise collateral? In actuality, securities are not definitely sold until ultimate investors buy them and keep them! Just as, let us say, pianos!

When a manufacturer produces pianos, and these are bought by wholesalers who store them in warehouses on the strength of borrowed bank funds, the manufacturers cannot and do not actually assume that these pianos have been sold by any means. No sound merchandiser believes this. Hence, these manufacturers will resort to advertising and other means to reach consumers and urge them to absorb the stock. Even when these consumers buy these pianos on instalment payments, merchandising men know these pianos are not fully bought until the last payment is made. Then these pianos have been fully absorbed. Then replenishment is genuinely needed.

Whenever it happens that piano production continues faster than consumer absorption; whenever wholesalers store more and more pianos in warehouses on the strength of borrowed funds, the piano manufacturers must sooner or later cease to manufacture, and the piano wholesalers must no longer take on more stocks. For bank credits are limited to a definite time-cycle corresponding to a normal turnover period. (Else the accumulated piano inventory in warehouses would necessarily be taken over by the banks! And banks were never intended to buy pianos!)

Yet security issues are financed by banks often without a thought to the ultimate public digestion of these stocks. When it happens that the country's banking system becomes gorged with its loans on these undigested securities, the bankers must become owners of these securities—or dump them! It is in the dumping process that the rub comes.

Most securities are not issued for sale to bankers. Bankers should be temporary lenders on—not permanent underwriters of—the nation's industries. Dumping is the dangerous corrective. It creates the financial panic.

I may add, parenthetically, that the banks (certainly those I know in this territory) resisted this dumping pressure magnificently! This will always remain to me a splendid incident in our 1929 financial history.

My personal suggestion, therefore, is simply this:

To insure against bankers being forced to shift from their strictly lending position into an underwriting—or dumping—position, I would urge that bankers compel their security borrowers to methodically amortize their loans, and to keep their funds rotating from one issue to another subsequent issue (with due precaution against switching of securities and banks).

Thus, security loans will keep pace with security turnover. Liquidation will be an orderly process.

As soon as the volume of undigested securities begins to pile up and to clog the borrower's ability to amortize loans, the ready flow of loans on his new securities would be retarded. Thus, a governor would be established to self-regulate the supply of undigested securities.

There could be no such sudden increase in brokers' loans as we have seen since 1927. The volume of brokers' loans is by no means a sure indication of the strength of our financial position, anyway. Who can define the proper limit? Volume could be better regulated by the time-cycle of security turnover. That is my point.

A merchant who sells \$1,000,000 in pianos a month may possibly be a better risk for a \$1,000,000 loan than a merchant who sells \$10,000 a month for a \$100,000 loan, and despite the fact that both men may show the same surplus on their balance sheets. Time is one element of sound banking. The time factor, or turnover cycle, should be important in considering loans against any collateral whatsoever.

By regulating the turnover of borrowed funds—by insisting on complete turnover of collateral every six months, let us say—a complete digestion of securities could be insured. It would be a natural control and not an artificial one.

The past policy of control seemed to be to raise or lower the rediscount rate artificially. This method seems to me unsound for several reasons:

First, because it tackles the wrong end of the proposition; it places the cart before the horse. Interest rates should be the natural result, and not the artificial cause, of supply and demand.

Second, because this method not only tacitly sanctions the practice of illegitimate borrowing, against which it is aimed, but also hits legitimate borrowing which cannot be avoided (and which it does not desire to hit).

Third, because there is no set of human beings in existence, with due apologies to the Board of Governors, which can by artificial means forecast accurately all the intangible, accidental and human factors which go to make up the vast streams of human supply and demand comprising our national investing market.

No human being can lift this planet by a lever, and any effort made by the Federal Reserve Board to do this, regardless of good intentions and scientific viewpoint, must meet inevitably with unfavorable results in some quarter or another, since divine ubiquity and omniscience are impossible to any man!

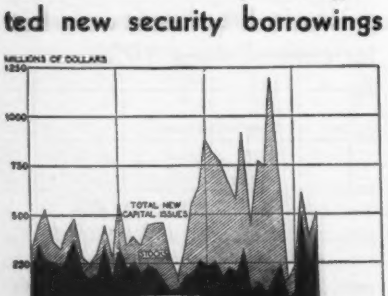
I can easily foresee objections to this plan; for instance, some will claim the present method of margin protection is a sufficient guide to regulate safe bank loans on collateral.

It is not always comfortable for a bank, as recent experience has shown in some cases. It certainly is not safe for the borrower. It precipitates dumping.

Furthermore, it is basically unsound. Current market price ranges are unsound basic indices for loans of indefi-

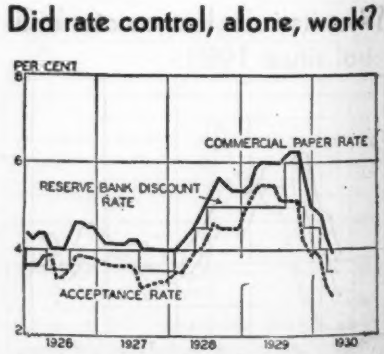
(*Continued on page* 40)

One reason—many undigested new security borrowings



New security flotations of domestic corporations — Refunding issues excluded (Commercial and Financial Chronicle monthly figures).

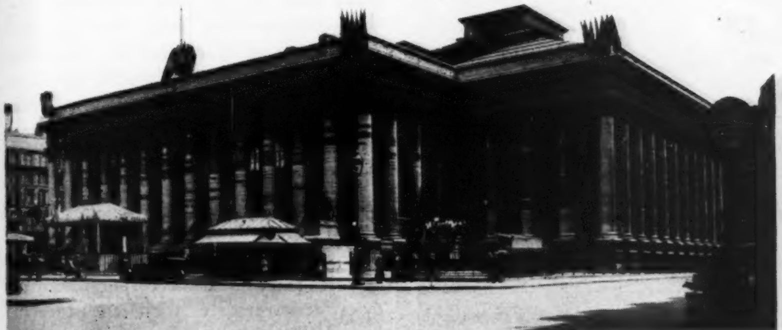
Did rate control, alone, work?



Money rates in the New York Market (April rates are averages for the first 20 days).

The Future of American Banking Abroad

BY DR. CLYDE W. PHELPS
Head of the Department of Economics, University of Chattanooga, Chattanooga, Tennessee



© Ewing Galloway

American banks abroad are indispensable intermediaries between the financial and commercial exchange systems of foreign countries and the American foreign trader who is doing business with these countries.

(Above) The Paris Bourse (Stock Exchange)

(To right) The Paris branch of the National City Bank of New York

TODAY, if you travel abroad, you will discover over two hundred American banking offices in thirty-eight foreign lands ready to help you solve your travel difficulties and your financial problems. If you are an American exporter, you will find that your foreign operations are better financed and promoted than ever before in history.

A generation ago, in 1900, there were only seven American banking offices abroad, all concentrated in London and Paris. These seven foreign offices were owned by three of our great private banking houses and two of our trust companies.

A veritable revolution has taken place in the field of American international banking during these first three decades of the twentieth century. A whole new section has been added to our American banking system which we may now begin to view as being composed of two parts: a domestic banking system and an "overseas system of American banks".

What of the future of American banking abroad? This is a very interesting question, for little attention has been devoted to the foreign expansion of American banks. And the prevailing tendency in many circles is to decry or to disparage the establishment and maintenance of American banking offices abroad. The attitude of the pessimists is founded on three erroneous ideas.

First of all, there is the notion that the number of foreign offices of American banks today is vastly inferior to the figure attained in the post-war boom days of 1920. This is a notion which, it must be admitted, appears to be quite reasonable. For there was a wild orgy of American foreign banking expansion in the war and post-war years which ran the number of overseas offices from 32 in 1914 up to 220 in 1920. Drastic reaction followed this unsound and exaggerated expansion. The great retreat of American banks from the foreign field, 1920-1925, saddened many hearts and spread gloom among the ranks of the foreign banking enthusiasts. But recovery and slow, steady growth since 1925 have brought the number of foreign offices of our banks up to 234 according to my latest compilation of figures. *American banks have more offices abroad today than at any other time in their history.*

Secondly, there is the implication in the attitude of a great many bankers and professors of economics that, after all, the existence of foreign offices of American banks is really of no definite value to American foreign trade. This implication is not difficult to understand.

Only fourteen of our large number of great national banks, private banks, and trust companies have any offices abroad. It would be too much to expect that the majority of our great banks, which are engaged in financing and promoting foreign trade without the aid of overseas offices, would admit to clients that their foreign operations might be better handled by the competing American banks which have either foreign branches or foreign representatives' offices. What terribly poor salesmanship it would be for a great bank having no foreign offices to admit for a moment the value of such offices!

So the sales propaganda assails us on all sides when we discuss the "Future of American Banking Abroad" with bankers. The few institutions having foreign banking offices (branches or subsidiaries) cite a multitude of specific instances wherein they have served a client better than would have been the case had they possessed no foreign offices.

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Since the early beginnings of commerce a foreign banking system has been fundamental to sound and logical foreign trade extension.

The still fewer institutions which have foreign non-banking offices (representatives' offices) set forth convincing testimony as to the value of these offices to them and to their clients, and extol the foreign representative as the most satisfactory type of foreign office.

But the majority of our great banking institutions have no offices abroad, and their attitude might be stated as follows: "The establishment and maintenance of overseas offices by our banks is of no value to American foreign trade. We deal exclusively through foreign banks which act as our correspondents, and we serve our clients just as well as or even better than do American banks having overseas offices."

Since the agitation for foreign branch banking began before the World War, some professors of economics have given fleeting attention to the subject of American banking abroad. They do not appear to be very interested in the topic or impressed by its importance. Employing the main law or principle (Division of Labor) with its corollary (Laissez-Faire) and the method (deductive reasoning) of the *classical* economists, the professors have in general taken a stand which might be stated thus: "If American foreign trade has been handled by foreign banks, it is simply because those foreign institutions have performed the services more efficiently than American banks could. American banks abroad are not needed by American foreign trade". The professors' application of classical economic theory to the problem of American overseas banking was brief and well done. But, unfortunately, they left the impression that if an overseas system of American banks came into existence it would be of little or no value to our foreign trade.

What are we to believe in regard to the value of American banking abroad to our international commerce?

The truth about the importance of our overseas system of American banks is easily discovered by the unprejudiced observer. He finds that in some transactions with certain foreign centers, an American bank dealing through a foreign bank as correspondent can better serve its clients than can an American bank dealing through its branch or representative's office in those centers. In other transactions with these or other foreign cities, the American bank and its foreign office will offer clearly superior service.

This simply means that, *because of the growth of American banking abroad, American foreign trade is better financed and promoted today than ever before.* For, with the rise of the overseas system of American banks, the American foreign trader is no longer forced to depend on just one method of banking service. Today, he has a choice of methods. He can use the American bank with foreign offices in those transactions where it may happen to be better able to serve him, and the American bank without offices in those cases it can offer the most advantageous service. And this is exactly what happens every day in American exporting. If you visit one of the great American export corporations, you will find some of its shipments being given to a great New York bank with foreign branches and other shipments being entrusted to another New York bank which works through foreign banks acting as correspondents. In the case of some shipments, the corporation may even deal directly with the foreign branch of an American bank instead of with the head office in New York.

Just what are the services to our foreign trade which are often better performed by foreign offices of American banks than by foreign banks acting as correspondents of American banks? In what specific ways is the American bank working through its own foreign branches often able to offer a superior service to American foreign traders?

1. *Responsibility.* When a foreign shipment is financed by an American bank on this end and a foreign bank on the other, the responsibility for protecting and caring for the interests of the merchant is divided. The merchant will find that this method, characterized by divided responsibility, is perfectly satisfactory as long as all goes well. But if difficulties arise, he may often discover that financing by an American bank and its foreign branch would have served him better.

Since an American bank has no real control over a foreign bank acting as correspondent or agent, it cannot and will not assume any responsibility for the actions of the foreign bank. But when a shipment is handled by an American bank here and by its branch at destination, the bank may be held responsible for the shipment from start to finish, for the foreign branch is legally, economically, and morally an integral part of the bank. The responsibility is continuous and complete.

2. *Information Service.* To foreign traders, credit information on foreign prospects and clients and commercial information on the financial, economic, and political conditions of foreign markets are of prime value. In some cases,

(*Continued on page* 43)

■ Insurance on tenants' improvements offers a credit safeguard which no credit manager can afford to disregard. This article by C. T. HUBBARD, author of "Where Fire Insurance Leaves Off" gives authoritative data about

Tenants' Betterment Insurance

THERE is a credit interest involved in the insuring of tenants' "betterments and improvements."

The tenant, naturally, must borrow money with which to install his lighting fixtures, partitions, special display windows, sound proofing devices, or hand painted ceilings. If he does not borrow he must invest his own money, or that of his stockholders or partners. If the improvements or betterments are destroyed by fire, water, cyclone, earthquake, explosion, or other hazards and there is no insurance, or more likely if the insurance is improperly arranged for, then the credit standing of the tenant becomes impaired.

Very few bankers, and fewer insurance agents, make inquiries about the way in which such improvements are insured. The answer is important to the credit manager who has extended credit to the tenant. Too often it is assumed that the insurance is all taken care of under the building owner's fire insurance policy.

A Neglected Coverage

Improvements and betterments insurance seems to fall in the category of specialty insurance coverages sadly neglected and yet most essential in protecting contractural obligations—leases, mortgages, loans, bills of credit and so on. Such insurance policies similar to demolition insurance, use and occupancy, depreciation insurance, leasehold and so on, cannot be *sold* in the general sense. These policies must be fitted to the conditions at hand.

There are several ways of insuring tenants' betterments and improvements. It would seem that the simplest method would be for Mr. Tenant to order a separate fire insurance policy to cover his interest in the betterments and improvements for which he is responsible. This is the solution, providing Mr. Tenant is perfectly willing to pay the entire premium for the necessary insurance to protect his interest in these betterments and improvements during the term of his lease. In the event of a loss he is not entitled to collect a sum greater than the value of these betterments or improvements *to him at the time of loss,* and therefore, to arrive at the insurable amount calls for study. The insurance can be written in this fashion, but perhaps there is a better way.

The improvements revert to the owner of the building at the conclusion of the tenant's lease. Therefore, Mr. Tenant, in association with the building owner, can insure these improvements and betterments in a joint fire insurance policy issued in both names and for the full value of the improvements. Then the tenant and the building owner can split the premium between them and each pay half, or whatever proportion they can agree upon. This is not always simple to arrange although it is the best plan. The tenant's interest in his betterments and improvements diminishes *each* year and the building owner's interest increases. Therefore, while the amount of insurance would remain the same each year, allowing for depreciation, the tenant should at first pay the largest portion of the premium and as the term of the lease expires pass along this obligation to the building owner who eventually will come into possession of the improvements.

There is a policy form for insuring improvements and betterments for their diminishing value quite similar to the form for insuring leasehold value, and leasehold profit, or leasehold bonuses.

This is not available in all states but a demand for this type of policy will lead to its further adoption.

Let us assume that a merchant has leased two stories of the building for a period of fifteen years. He has installed a new front entrance, also a hard rubber tile floor to make the store more attractive. Perhaps he has added metal ceilings and constructed a balcony. Possibly he has attempted other decorations, including new lighting fixtures which required special wiring and also rearranged the basement and added a number of new partitions. These improvements, he figures, will attract customers and increase his sales. Assume that he invested $80,000 in such improvements. According to his lease he has fifteen years in which to realize on his investment of $80,000. At the expiration of the fifteen years the building owner automatically becomes the owner of the alterations, or else enters into a new lease. We will assume that the merchant tenant is amortizing the value of his improvements at the rate of 6 2-3 per cent. a year in order to reduce the book value of these improvements at a rate which at the expiration of the lease will bring them down to a cipher.

Diminishing Value Coverage

If the tenant maintains these improvements during the entire period of tenancy it is only proper that he should depreciate the value at the rate of 6 2-3 per cent. a year, because if the property were destroyed in the last year of tenancy he could collect only 1-15 of the value of these improvements.

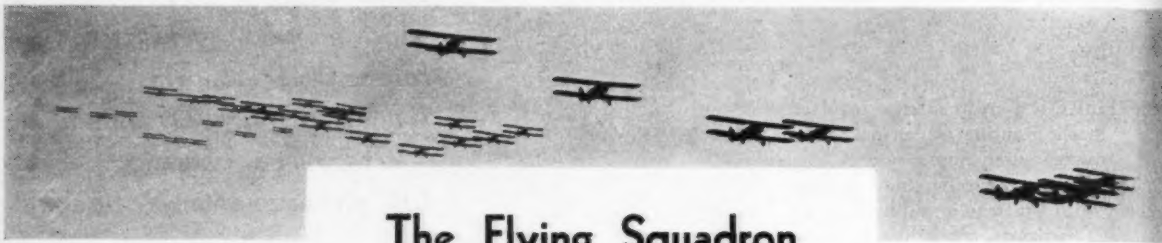
This policy form recommended is designed much along the lines of a leasehold policy and provides for insuring the diminishing value of these betterments and improvements to the tenant. This provision reads:

> "That the value of such interest lessens each month as the lease expires."

The form specifically provides that

(*Continued on page 45*)

"Changing Conversation into Conservation"



The Flying Squadron and Economic Credit Council

A REFERENCE to page 29 of the October CREDIT MONTHLY will give you the full story of the organization and the purpose of the Flying Squadron and Economic Credit Council, which has been instituted to set in motion definite movements against credit waste and inefficiency. Every member of the Squadron and Council who brings a new member into the N. A. C. M. "wins his wings." The members of this Council, through their enlistment, show a breadth of vision in co-operating in this important work and evidence a fine spirit and heartfelt interest in relation to the work the Council is dedicated to perform.

There are to date 600 members enrolled in the Squadron and Council. The names of those who enlisted since the first publication of the list are given below:

Paul C. Adams, Winship Boit and Co., Wakefield, Mass.
J. R. Aiken, American Paint & Glass Co., Detroit, Mich.
Walter G. Ambrose, Carpenter-Morton Co., Boston, Mass.
R. W. Anderson, Crane Company, Minneapolis, Minn.
Thomas E. Arnhold, The Henry E. Bragg Leather Co., St. Joseph, Mo.
M. S. Arnold, Merchants Publishing Co., Kalamazoo, Mich.
J. D. Atkinson, Crescent Cigar & Tobacco Co., New Orleans, La.
R. L. Attaway, Westinghouse Electric & Manufacturing Co., Atlanta, Ga.
Reuben H. Bachman, Bee Automobile Co., Allentown, Pa.
Mrs. Charlotte Baker, Pittsburgh Plate Glass Co., Grand Rapids, Mich.
G. H. Baker, Kaiser Bros., Knoxville, Tenn.
Conrad E. Barker, Morse Hardware Co., Bellingham, Wash.
F. E. Barkley, C. M. McClung & Co., Knoxville, Tenn.
James L. Barney, Barney & Carey Co., Dorchester, Mass.
R. E. Batey, Security Mills, Knoxville, Tenn.
J. N. Bendle, Standard Oil Co. of California, Spokane, Wash.
H. M. Bennett, McComas Dry Goods Co., Los Angeles, Calif.
Miss Alma Best, Sanichas Candy Co., Inc., Phoenix, Ariz.
E. M. Bigelow, The Kawneer Co., Niles, Mich.
C. W. Binzel, Holeproof Hosiery Co., Milwaukee, Wis.
C. O. Bishop, West Coast Grocery Co., Tacoma, Wash.
Charles Bittmann, Cone Export & Commission Co., New York City.
Frank D. Bittner, Bittner, Hunsicker & Co., Allentown, Pa.
Frank H. Bockheim, Hazeltine & Perkins Drug Co., Grand Rapids, Mich.
E. L. Boneau, Brown Shoe Co., St. Louis, Mo.
John D. Booth, Citizen's Trust Co., Binghamton, N. Y.
O. H. Bestad, Minneapolis Knitting Works, Minneapolis, Minn.

WINGS THAT ARE WON

Those members of the Flying Squadron and Economic Credit Council who have won their wings since the publication of the first list are listed below. The total is now 21.

Miss Christine Olson, Sioux Falls Paint and Glass Co., Sioux Falls, S. D.
L. Motz, Armour and Company, Sioux City, Iowa
J. B. Jenkins, The Vinnedge Company, Fort Worth, Texas
W. J. Howard, R. G. Dun & Company, Fort Worth, Texas
Warren A. Jeffords, American Lava Corporation, Chattanooga, Tenn.
A. W. Sigel, Kelly-Springfield Tire Co., Los Angeles, Calif.
Allen Young, The Bradstreet Company, Fort Worth, Texas
W. H. Miller, The Wm. D. Gibson Company, Chicago, Ill.
J. Roy Pierson, Thomas Field & Co., Charleston, W. Va.
J. W. Durrett, The First National Bank, Chattanooga, Tenn.
A. R. Gilmore, The Sherwin-Williams Co., St. Louis, Mo.
Ernest S. Olson, Ballou & Wright, Portland, Oregon
C. F. Randle, King-Dobbs Co., Chattanooga, Tenn.

J. L. Bottoroff, The E. L. Essley Machinery Co., Chicago, Ill.
C. M. Bozwell, Simmons Hardware Co., Sioux City, Iowa.
P. L. Brothers, Jr., Gulf & Valley Cotton Oil Co., Inc., New Orleans, La.
A. L. Brown, Shaw-Walker, Toledo, Ohio.
J. H. Brownell, The McPike Drug Co., Kansas City, Mo.
Carl H. Bruns, The Kuhlman Builders Supply & Brick Co., Toledo, Ohio.
Lee S. Buckingham, Asst. Vice-Pres., Manufacturers Trust Co., New York City.
R. F. Buesrmann, The Aluminum Cooking Utensil Co., Oakland, Calif.
Lloyd H. Burt, George F. Burt & Co., Lincoln, Neb.
Miss Della R. Cain, K. B. Printing Co., Omaha, Neb.
Martin A. Campbell, American Motor Equipment Co., Boston, Mass.
G. Elmer Carlson, Crane Company, Buffalo, N. Y.
Howard Carrell, The Shaw-Kendall Engineering Co., Toledo, Ohio.
F. W. Carson, The Bradstreet Co., Albany, N. Y.
E. F. Cary, National Battery Co., St. Paul, Minn.
T. G. Casley, Stowe Supply Company, Kansas City, Mo.
N. R. Catharin, Thomas G. Plant Corp., Boston, Mass.
Howard L. Chambers, Certified Public Accountant, South Bend, Ind.
M. V. Chapman, The Pure Oil Co., Huntington, W. Va.
I. D. Clark, Janney-Semple Hill & Co., Minneapolis, Minn.
M. P. Cleboski, General Electric Supply Corp., Houston, Texas.
Walter G. Cobb, Brunswick-Kroeschell Co., Chicago, Ill.
Edward Kirk Cochran, Otis Elevator Co., Omaha, Neb.
Tom Cole, Forbes Supply Co., Seattle, Wash.
Chas. A. Colton, Boston Evening Transcript, Boston, Mass.
Sidney B. Congdon, The Bank of Pittsburgh, Pittsburgh, Pa.
C. J. Conklin, Standard Oil Co. of Louisiana, New Orleans, La.
Oscar Coppage, John P. Morton & Co., Louisville, Ky.
George M. Cowden, The Jackson Citizen Patriot, Jackson, Mich.
E. E. Daniels, Central Brass Mfg. Co., Cleveland, Ohio.
Orrin B. Davenport, Grand Rapids Savings Bank, Grand Rapids, Mich.
J. Victor Day, Smith Patterson Co., Boston, Mass.
R. S. Dean, R. G. Dun & Co., Providence, R. I.
R. W. Dean, Firestone Tire & Rubber Co., Sioux City, Iowa.
G. H. Deu, Bunte Bros., Chicago, Ill.
P. E. Dietz, The Sherwin-Williams Co., Dallas, Texas.
W. D. Doak, Norris, Inc., Atlanta, Ga.
A. B. Dod, Salem Glass Works, New York City.
W. A. Dolezal, Kennedy & Parsons Co., Omaha, Neb.
C. S. Douglas, Niagara Wall Paper Co., Niagara Falls, N. Y.
L. E. Douglass, Firestone Tire & Rubber Co., Albany, N. Y.
John Dreaper, South Texas Commercial National Bank, Houston, Texas.
W. H. Dressler, Stockyards National Bank, Omaha, Neb.
O. E. Dreutzer, The Alms & Doepke Co., Cincinnati, Ohio.
H. M. Driscoll, Boulevard Bridge Bank of Chicago, Chicago, Ill.
A. Z. Eberhardt, A. E. Sielaff Paper Co., Milwaukee, Wis.
E. S. Elliott, Jr., Mississippi Valley Furniture Co., Memphis, Tenn.
Horace S. Ensign, Grit Printing Co., Wichita, Kan.
Frank X. Ernst, Buffalo Gravel Corp., Buffalo, N. Y.
G. W. Everett, Armour & Co., Pueblo, Colo.
Fred M. Exline, Security Bank & Trust Co., Charleston, W. Va.
M. J. Fassler, Karpas, Fox & Fassler, Inc., New York City.
Charles H. Fitch, M. & T. Trust Co., Buffalo, N. Y.
C. A. Force, Manhattan Electrical Supply Co., Inc., St. Louis, Mo.
S. F. Forsythe, Leslie's Albany Credit Bureau, Inc., Albany, N. Y.
E. B. Foster, Gooch Food Products Co., Lincoln, Neb.
R. S. Freeman, Great Lakes Coal & Dock Co., Minneapolis, Minn.
M. A. Frost, Minneapolis Ironstore Co., Minneapolis, Minn.
E. T. Gaither, Haskins Bros. & Co., Omaho, Neb.
L. R. Gardner, Westinghouse Electric & Manufacturing Co., Buffalo, N. Y.
F. B. Gibbons, Gooch Milling & Elevator Co., Lincoln, Neb.
S. W. Gilbert, Lukens Steel Co., New Orleans, La.
M. A. Goldman, Adirondack Radio Distributors, Albany, N. Y.
R. E. Goodwill, Graybar Electric Co., Inc., Detroit, Mich.
H. M. Grant, Armour & Co., Oakland, Calif.
J. Edward Gross, The New Jersey Zinc Co., New York City.
S. E. Gross, The Foote-Burt Co., Cleveland, Ohio.
H. G. Haarz, Chas. H. Besly & Co., Chicago, Ill.
Willard Haff, Wellington, Stears & Co., N. Y. C.

(Continued on page 46)

JOHN STEVENSON, statistician, Kidder, Peabody & Co., lecturer, New York Stock Exchange Institute, who last month wrote on "Financial Statement Aspects of Bonds and Preferred Stocks," tells in this article how to analyze

Common Stocks as Investments

INVESTORS selecting common stocks for investments are interested primarily in two things, a steady dividend income and possibilities of appreciation. The selection of suitable common stocks is by no means a simple process. On the contrary it involves the consideration of a number of factors all of which have a bearing on the situation. The process of analysis varies with the different types of companies considered. Industrials, railroads, public utilities, banks and investment trusts require dissimilar methods of analysis. Rather than attempt to cover the phases of analysis required by different types of companies, the discussion in this article will be confined to industrial companies and will be limited to the analysis of the information obtainable from financial statements.

In this connection it is well worth while for an investor in common stocks to consider the following factors: (These factors should be considered only after a careful study of the economic situation as outlined in the article entitled "Economic Factors Affecting Industrial Companies" which appeared in the September issue of CREDIT MONTHLY.)

1. Is the company in strong financial position?
2. Is the company a low cost producer?
3. Is the plant being utilized to greatest possible advantage?
4. If the company has acquired other units have such acquisitions been made on a reasonable basis?
5. Are reported earnings true earnings?
6. Have earnings over a period of time shown a substantial and steady growth?
7. Is the stock reasonably priced?

While many other factors can be considered in analyzing common stocks, it is virtually impossible in an article such as this to discuss the process of analysis in detail. Consideration of the above seven factors, however, should be helpful in selecting common stocks as investments. Each of the first six factors should be considered over a period of five years and comparisons made with other companies in the same industry.

The usual method of determining the financial position of a company is the current ratio, i. e., current assets divided by current liabilities. If this ratio were 2 to 1, it was formerly considered that the current financial position was sound. The current ratio, however, has one outstanding weakness, that is, the fact that inventories are included in current assets. In certain instances, especially in a period of declining commodity prices such as the world is experiencing at present, inventories may be subject to serious price decline.

Quick Assets Test

The defectiveness of the current ratio may be overcome by the use of the quick assets ratio. Quick assets comprise cash, marketable securities and accounts and notes receivable. The ratio is obtained by dividing quick assets by current liabilities.

The relative cost of manufacturing a particular product is one of the most important phases to consider. With many industries operating today on a mass production scale, a small percentage decrease in sales, sometimes, results in a decline of major importance in net profits. Generally the company with the lowest cost of doing business in any industry, is the most profitably operated and is more firmly entrenched against business depression. The margin of profit ratio will be helpful in determining the relative degree of operating efficiency. This ratio is found by dividing operating income by sales, operating income being the balance of earnings remaining after all of the costs of operation, including the actual manufacturing costs, depreciation, selling, administrative and general expenses have been paid.

Changes in the margin of profit ratio over a period of years should be studied to detect any unfavorable trend toward decreasing margins of profit. While this is important for all types of industrials, it is doubly important for companies engaged in mining enterprises since the selling price of the product represents world market prices and is beyond control of the individual company.

No company, no matter how favorably situated it may be in other respects, can derive complete benefits from its organization unless it utilizes its plant investment to the greatest possible advantage. Many companies are handicapped because of their inability to "turnover" their plant to the greatest extent. The ratio known as plant turnover is particularly valuable in diagnosing this ailment. Plant turnover is found by dividing annual sales volume in dollars by the amount of property investment shown on the balance sheet. For convenience in interpretation this ratio may be expressed as "the number of dollars of sales for each dollar of plant investment." Expressed another way, a small plant turnover indicates that the company for one reason or another is not securing its due share of the sales of a given product. While increased sales do not necessarily mean increased profits, sales obtained on a reasonable cost basis mean increased profits. Comparisons with companies engaged in a similar line of business endeavor will indicate whether the plant turnover appears to be reasonable.

(*Continued on page* 49)

Can credit win?

Do you know that the first credit principles were used by Man in relation to prehistoric marriage customs? Do you know that the dawn of modern banking emerged from the darkness of castle dungeons? It is rather amazing to realize that our complicated banking and currency system of today is merely an elaboration of prehistoric, ancient and medieval customs and practices.

BY BRUCE L. HENRY

EVER since Mother Eve broke the first law by stealing an apple from the Tree of Life, Theft and its big brother, Banditry, have spotted the history of the world with a stain that has never been entirely eradicated. The stain has grown, as the world became more "civilized", until today there exists a distinct class of persons who depend entirely upon the unlawful seizure of goods for their livelihood.

A study of this growth, aside from the natural glamor that surrounds it, is especially interesting because of the effect it has had upon credit and banking. Because it shows how, all through the ages, credit and banking have developed in exact proportion to the need for financial protection caused by the growth of unlawfulness. Because it offers an inspiring picture of the part which credit men and bankers have played in devising all manner of means for frustrating crooks.

Among the first primitive races, crime and credit, as we know them, did not exist. It is axiomatic that there can be no crime or credit unless there are laws or taboos which forbid stealing, and, among the primitives, there were no controlling statutes making thievery punishable. Robbery, murder and rape were indulged in by all, and, since everyone did them, the acts were accepted as a matter of course. Because of the same lack of laws, credit was unknown, each man taking what he needed, when he needed it.

When Joe Stoneaxe, for example, saw that Fred Flinthatchet had a cave, a spear and a wife that were superior to his own, he straightway either obliterated friend Flinthatchet with a well-placed blow, or so intimidated him that Fred was glad enough to relinquish all claims to the cave, spear and wife, and hunt himself a weaker opponent from whom he might secure a new set of necessities. Society looked upon Joe

The chessboard of dollars

Stoneaxe's actions with disapproval, perhaps, but nothing was done about it. Presently another member of the tribe, stronger and braver than Joe, appeared and repeated the process, bouncing a boulder on Joe's cranium and establishing himself as lord and master of the Flinthatchet-Stoneaxe cave.

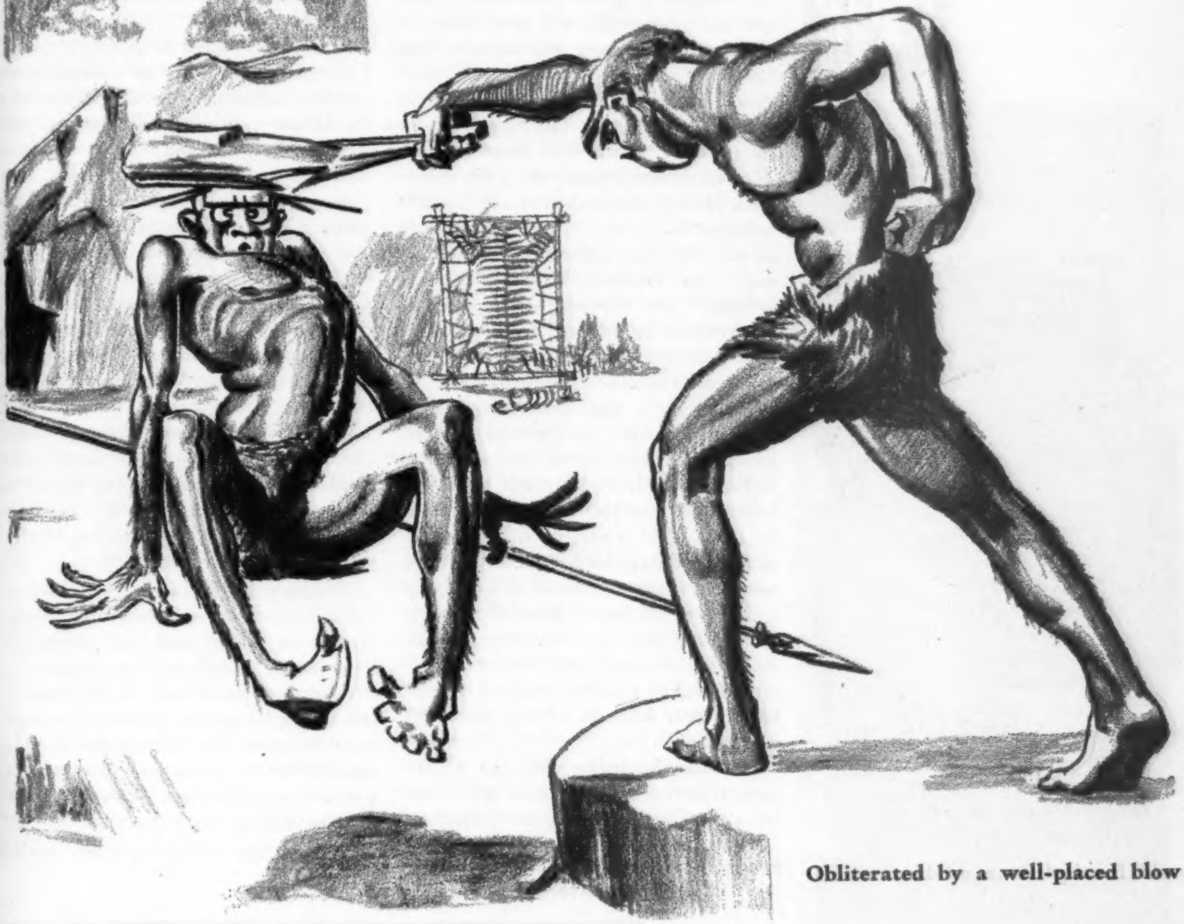
With the growth of a possessive instinct, however, men enlisted the aid of other men in order to obtain vengeance on thieves. Hence, the "eye for an eye, tooth for a tooth, and a life for a life" creed developed, and when a man stole another's property, he did so

History does not record what Mrs. Flinthatchet-Stoneaxe thought of these events.

at the risk of being killed by the rightful owner backed by powerful friends. Thus was established the first law—self-redress—with personal vengeance the only punishment. It was sanctioned by, and practiced by all men, and lasted longer than any other moral code ever has.

Came then the development of the tribe or first family. Prior to this development, a man and his wife had little or nothing to do with the other families of the surrounding territory. They procreated, spent their time hunting for food, and paid strict attention to their own business. Eventually, however, when their offspring passed through the adolescent stage and felt the first urge of manhood and womanhood, it became evident that there would have to be added to the compact,

When Joe Stoneaxe saw that Fred Flinthatchet had a cave, a spear, and a wife that were superior to his own, he either obliterated friend Flinthatchet or so intimidated him that Flinthatchet was glad to relinquish all claims to his possessions.



Obliterated by a well-placed blow

self-centered little group, a new member . . . else the children would be forced to commit incest, a thought that was revolting to Man even then. In order to do this, the young men of the family sallied forth and abducted the fairest members of other families. This, however, was a lot of trouble, and often resulted in bloodshed and a strained situation between husband and wife, so Man reasoned that it would be much better to effect a truce with his neighbors and bring about the mating of youth peacefully. Ergo, the first tribe under a common head was formed.

It is most obvious that the head-splitting, property-stealing tactics hitherto in vogue were not de rigueur in a tribe, for even the most hardened mastodon slayer felt a few qualms about killing his wife's sister's son for a tiger-skin robe or a new arrowhead. Likewise, the father of a newly-married girl was not disposed to bash in the skull of his son-in-law simply because the youth had a necklace he admired. So, as these new, startling facts began to penetrate the little-developed brains of early men, they sought a means of arranging inter-tribal trade relations, laws governing the possession of property, means by which they could secure something they coveted without having to resort to strong-arm tactics.

The solution was a tribal head. Man selected one of the elders of his tribe, invested him with the power to settle all disputes, whether they dealt with property or marital relationship, and pledged himself to abide by the judgment of that elder. As a result of this move, we find the first dim traces of a credit system. Crude, yet effective, it had its beginning in an arrangement by which a suitor could make payments for his bride "on time", that is, he could pay the bride's father the necessary number of oxen or weapons for her purchase a few at a time instead of delivering the entire number en masse. No security except his word was required, but the wrath of the tribal head was incentive enough to make any young husband stretch himself to meet the obligation!

The rest of the laws governing property were practically Communistic. If one man was in want, the tribal head simply took certain necessities away from someone who had more than his share and presented them to the poor one. This arrangement apparently was perfectly satisfactory to most of mankind.

There were, however, certain black sheep in every group who were not content with the system. These few, therefore, surreptitiously removed such weapons, food and clothing from the dwellings of other members of the tribe

(*Continued on page 50*)

ONE of the greatest credit stories of all time is the story of how Harvey S. Firestone was plunged suddenly into a forty-three million dollar debt by the staggering rubber catastrophe of 1920—and how he paid off this huge deficit and established his business on a firmer and sounder basis than ever before. This masterful feat of financial and credit management would be startling even in the most prosperous times. When you consider that Harvey Firestone made this great comeback during the dullest years the tire business has seen you can readily understand why such adjectives are "amazing", "extraordinary" and "incomprehensible" are applied to his epochal achievement in management.

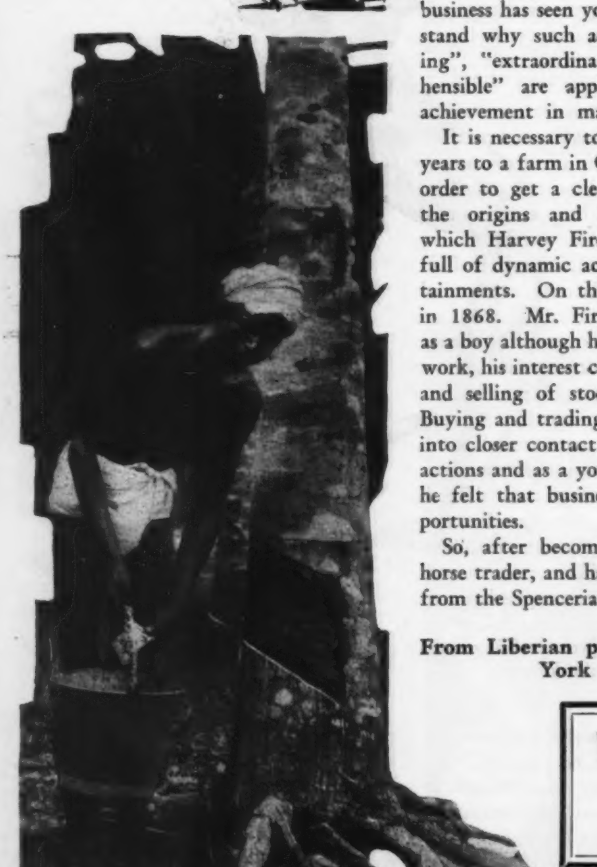
It is necessary to go back three score years to a farm in Columbiana, Ohio, in order to get a clear comprehension of the origins and background against which Harvey Firestone has set a life full of dynamic activity and broad attainments. On this farm he was born in 1868. Mr. Firestone told me that as a boy although he did not dislike farm work, his interest centered in the buying and selling of stock, especially horses. Buying and trading horses brought him into closer contact with business transactions and as a young man in his teens he felt that business offered more opportunities.

So, after becoming quite an expert horse trader, and having been graduated from the Spencerian Business College in Cleveland, Harvey Firestone entered business as the bookkeeper for a coal company. "The trading instinct was strong in me", Mr. Firestone said, "and I wanted to buy and sell things instead of post transactions that had already been completed."

Through a series of incidents young Firestone found what he considered an excellent opportunity in the selling field. He became a traveling salesman and sold flavoring extracts and a tonic that was supposed to be a tonic for almost anything that needed tonicity. He was given the small Ohio towns where the star salesmen would not bother to go. Unfortunately, no belief had been built up in these patent medicines by advertising and the products were difficult to sell. Young Firestone, however, had no luck with the tonic so he concentrated on the flavoring extracts and "Wild Rose Lotion" for chapped hands. His sales soon became the most substantial source of income for the company. Mr. Firestone told me that this experience taught him his first fundamental lessons of salesmanship.

"I didn't believe in the tonic and so I couldn't sell it. I believed in the extracts and lotion and sold them. I learned then and there that no man can sell successfully unless he thoroughly believes in his commodity—and understands it. If a man believes in his product and knows it selling really becomes a matter of explaining. I don't believe that persuading is salesmanship."

Within a year's time the patent medi-



From Liberian plantations to New York streets

Winning by

"The man with a surplus controls circumstances. The man without a surplus is controlled by circumstances."

"There is some small satisfaction in just giving away money, but the great satisfaction is in giving others the chance to be independent."

"Only one out of every hundred men can stand the test of prosperity without losing his sense of values, and fewer still can face adversity without digging in."

© Ewing Galloway

An Interview with HARVEY FIRESTONE

By Chester H. McCall

cine company went broke, and with much valuable experienced chalked up to his credit, young Harvey Firestone went to work for his father's cousin, who was one of the owners of the Columbus Buggy Company. He worked in a shipping room for nine months and was then transferred to branches in Detroit and Des Moines to assist in bookkeeping and management matters. From time to time he was able to crowd into the showroom and get additional experience selling.

While driving one afternoon in one of the fine, rubber tired buggies, which at the time were the only rubber tires in Detroit, the thought occurred to him that he was riding on the basis of his future—*rubber tires.* "There were very few rubber tires in the country. They were hard to buy. Why not make them easy to buy? I have about a thousand dollars saved. Why not start making rubber tires?" were the thoughts that ran through his mind as he thought the proposition over, Mr. Firestone said.

He secured two partners and they took over an old, run down rubber factory in Chicago. Fifteen hundred dollars was the investment and five hundred dollars the working capital. The rubber was bought in strips and fastened to the buggy wheels in the factory. Mr. Firestone helped the workman put tires on when the business was first started. The selling price for the tires was around forty dollars a set—they cost approximately fifteen dollars —a nice profit for the new business. "We prospered right from the start", Mr. Firestone told me, "once a man rode on rubber tires he wanted them for his buggy." The Firestone-Victor Rubber Company, as the business was called, was the nucleus from which has grown the great Firestone Tire and Rubber Company of today.

The Firestone Tire and Rubber Company now has a working surplus in excess of fifty millions. The Akron factories alone cover three million square feet of floor space—the buildings extending half a mile. Other tire plants are located in Los Angeles, Hamilton, Ontario and Brentford, England and one is now under way in the Argentine. In New England the company operates two great cord fabric mills, and a rubber footwear plant. At Singapore are eastern rubber headquarters, buying offices, shipping and washing plants. Far across the world in Liberia, Africa, is Firestone's great rubber development, a plantation where the best rubber is being produced at the most reasonable cost on record.

Harvey Firestone's name is deeply etched on the scroll of names that have contributed to American industrial supremacy. Probably he ranks as the greatest industrialist of all. In straight business management he has had no equal. He has not been an inventor—nor has his genius become outstanding through channels of production and manufacturing. He is a salesman and a picker of men. When I asked what he

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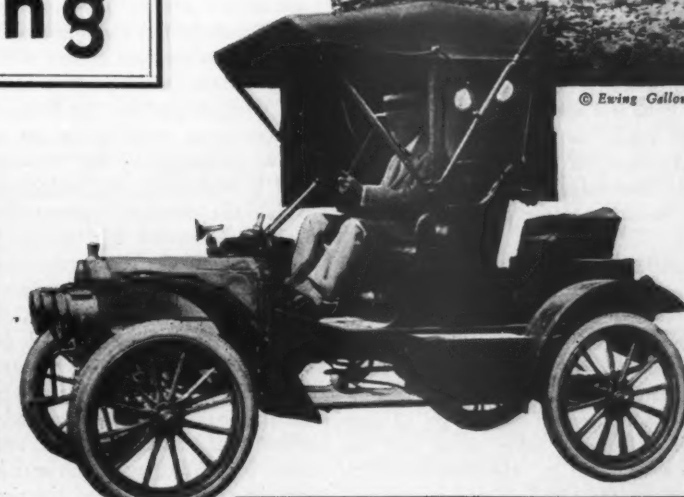
Malayan and African rubber trees —rubber trade sources

not losing

© Keystone

Mr. Firestone is preeminent among American industrialists—a master salesman, picker of men and great coordinator. His life story is one of the greatest romances in American business.



Mr. Firestone in a 1903 Ford

considered one of the prime qualifications of a good executive he answered:

"A good executive is, of course, the man who can carry plans, ideas and orders to execution and completion. I think the name 'executive' is really a misnomer, as it is applied to the head of a business. The men under him are really the executives—the men who execute the detailed programs of a business. It is more exact to call the head of a business 'the co-ordinator'. One of his major responsibilities is keeping executives on the job of executing. He cannot possibly attend to any of the details of execution. The ability to select men and co-ordinate them into an efficient organization unit after they are selected is really the one big function of the man at the head of a business."

"This business of selecting men is not an easy one", I said. "Can you give any criteria or rules you use in selecting men?"

Men and Horses

"Picking men is something like picking horses. When my ability to pick good horses became fairly well known in our section I was sometimes asked what points I looked for. There were of course a few never failing points about a good horse but in the main no specific reply to the question could be given. You could not give a man a set of ten rules which would make him a good horse trader. It was not a science but an art. There was a good deal of the intuitive about it. I have never seen a good horse trader who didn't like horses. The picker of men—that is, the good picker of good men—must like men. He must be interested in seeing them get ahead—must have a sympathy for their attitudes and objectives. I generally try to find out if a man's information is very closely confined to the field in which he is working. No matter if he is a specialist he cannot get as good results as he would if he had a background of more generally applicable knowledge. Perspective is one of the most important qualifications of a man.

"Failures and the least resistance type of men usually talk too much. It is easy to discern that they are telling more than they really know. The thinking type always tell less than they know. Their manner and attitude reflect a reserve of ability and knowledge. A man with real ability never comes out and tells you he has it. He doesn't need to for there are certain factors that will tell the story of his ability better than he can tell it."

Mr. Firestone gained many valuable lessons from this first personally organized business venture. He faced the problem of not having enough money to expand and not knowing how to get the money. He sold one company on a credit line of one thousand dollars but he did not know how to sell the banks. Mr. Firestone went to a bank to borrow money. His statement was made out but the liquid assets were less than the current liabilities. He explained the statment to the bank credit man, painted the future of the company. Firestone argued from the point of assets and prospects—he did not consider the significance of the ratio of assets to liabilities. The credit man led him into an explanation of the statement and the business. Mr. Firestone felt that he was getting the loan—but he didn't.

"I learned two things from that experience", Mr. Firestone told me. "A man with vision should go to a bank with vision if he wants to borrow money. I did go to another bank with the same statement and the same story—and got a ten thousand dollar loan. The other thing I learned was that a bank statement should be put in such a form that no explanation is required. Everything should be on the statement. It should be conservative so that it is possible to show that the situation is really a little better than reflected by the statement. Facts should always be presented—not prospects and possibilities."

The New Company

This company was sold to a trust formed to take over rubber companies at that time—and Mr. Firestone came out of the deal with $45,000 in cash. The Standard Oil Company was about the only corporation of any note at the close of the nineteenth century but Mr. Firestone saw the vast future offered by corporate organization on a large scale. Although his first company was sold it was really the beginning from which the present Firestone Tire and Rubber Company has grown for he merely sold the properties—not the plans, dreams and organization of the company. While making up his mind about the future he worked for two other companies resigning to organize a new company when he was able to go in with a man who had invented a tire which would fasten to the rim and overcome that difficulty which was hindering the rapid progress of the tire business. On the third of August, 1900, the Firestone Tire and Rubber Company was organized with a capital of $50,000. Mr. Firestone invested ten thousand in cash and his option on the tire business of the company, for which he received an additional fifteen thousand in stock. He became Treasurer and General Manager. Then came the struggles and crucible experiences with the new company. For three years there was an actual money loss but Mr. Firestone knew from where the losses were coming and was able to correct the difficulties. Money was needed for expansion. New stock had to be sold—n[illegible] backing secured. With [illegible] and a still rarer sens[illegible] Harvey Firestone go[illegible] after—and the great [illegible] Rubber Company be[illegible] The full story of th[illegible] can only be told in[illegible] been done by Mr. Firestone in [illegible] tion with Samuel Crowther. T[illegible] "Men and Rubber" stands as one [illegible] most significant contributions to [illegible] literature of industry and business.

Catastrophe

Then came 1920. The company was at the height of prosperity. One man who had invested $7,500 when the company was formed found his holdings approximating a market value of about $900,000. This was a conservative reflection of the prosperity of the Firestone Tire and Rubber Company. The original twelve employees had grown to 19,800. Sales mounted to a hundred million a year. The organization ramifications were vast and intricate—sixty-two factory branch houses, seventy-five warehouses, thirty-six thousand dealers. Offices were established in Canada, London, Singapore. In 1919 earnings reached nine million dollars. Total assets exceeded seventy millions, of which nearly one half was surplus. There were four dollars in current assets to every dollar of current liabilities. The only problems that had faced the company for some time were problems of expansion and of more prosperity—problems that the impetus already created virtually solved. Easy Street had never been easier.

Then—from out across the bright, shining plains of prosperity swept the tornado of 1920. Rubber dropped from fifty-five to sixteen cents a pound and with it crashed the inventories and raw material basis of the Firestone Tire and Rubber Company. Within a startling short period there had mounted a bank indebtedness of forty-three millions.

(*Continued on page 52*)

How retail method furnishes dependable data for merchandise management and control.

The Retail Method of Inventory

This method offers two advantages: protection against errors and a saving of time.

BY E. W. GOTTENSTRATER
Resident Mgr., Touche-Niven & Co.
Atlanta

EVERY business is in partnership. The consumer is a silent partner to both producer and distributor [illegible] casts the deciding vote. [illegible]ssary in order to con[illegible] business to make sure [illegible] will receive the great[illegible]y of a producer and [illegible]g forth their best [illegible]ght against one an[illegible] attempt to obtain from each [illegible] temporary advantage, is now [illegible]ort of ridiculous. [illegible]t not more rational for those who [illegible]ke merchandise and those who distribute it to the public to get together and ascertain what the public wants and needs, and then decide on the best and cheapest way to meet that need? Every time the price of a single article is permanently reduced, those responsible are giving the consumer the equivalent of an increase in income.

Several examples of co-ordination and co-operation of this kind have come to the writer's notice and are repeated so that this welding together of producer and distributor may be better understood.

One of the large department stores gave its orders for merchandise required for one year in advance. This placed the manufacturer in a position whereby he could lay out production schedules and increase his efficiency to the extent that he was able to reduce his prices approximately 15 per cent. This saving has been passed on to the buying public.

On the other hand a manufacturer has made a detailed study of his business from every angle with the result that a number of lines have been abandoned and the remaining lines are being produced at a much lower cost and through this efficiency their customers have increased from two hundred and fifty to approximately one thousand. This manufacturing firm has put the distributor in a position to give better service to the consumer.

The methods of doing business of this producer and distributor are far in advance of the usual conflict between the two branches of industry. The energies of both are directed into a channel that gives the public the utmost value.

Before the distributor can be approached successfully by the manufacturer it is quite necessary for each to make a detailed study of his particular line of business so that it may be raised to the highest possible point of efficiency. This requires proper accounting methods so that the owners will have the required information to properly judge the future of the business from past performances.

Simplifying Inventory

Seemingly one of the greatest handicaps of the distributor today is lack of proper method of merchandise control and the ascertaining of inventories at certain intervals without the necessity of making a physical count. Such a system must fulfill *certain fundamental requirements.*

1. It must provide means of securing accurate inventory figures, at cost or market, whichever is lower. This requirement may further be explained by stating that the method of merchandise accounting must facilitate the taking of depreciation, especially during periods of rapidly declining prices, and also for the purpose of determining taxable income, it must provide an inventory figure that is satisfactory to the business firm and to the government tax authorities.
2. The method must not be too complicated or require too much work and must not cost more than its worth. The results should amply justify the expenditure and the system must be as nearly proof against errors as possible.
3. Finally, a complete system of merchandise accounting should provide at all times accurate book figures for the value of merchandise on hand at any date and the value of merchandise sold during any period. This requirement is the most essential and the most difficult.

The retail method of inventory fulfills these requirements and is the name given to a series of accounting processes, taken collectively, the primary purpose of which is to establish the valuation of an inventory by means of retail or selling prices, and the second purpose of which is to furnish dependable data for merchandise management and control.

The retail method of inventory affords certain advantages to the organization using this method over the other methods of merchandise accounting commonly used. The advantages naturally divide themselves into two groups:

(a) Advantages connected with the actual taking of stock at inventory time, and
(b) Advantages in facilitating merchandise control.

In the taking of inventories, the majority of business concerns have adopted the practice of pricing each item on the inventory at cost or market, whichever is lower, and are confronted with the necessity of pricing the items correctly, which are unsalable at normal prices because of damage, imperfections, shopwear, change of style, odd or broken lots, price decline, or other causes.

Where the cost method is used, each article is generally coded and when taking the inventory the various prices are decoded in order to arrive at the actual dollar and cent cost figure. Not only does this add to the clerical work of the inventory, but in writing down code numbers and in decoding them it is easy to make mistakes. It is readily seen that no provision has been made for the goods which are unsalable at normal prices and, therefore, it is necessary to scrutinize each item and revise the cost figure when necessary to the proper basis, as the Internal Revenue Department will not allow a deduction from the total inventory for depreciation.

Under the retail method of inventory, the inventory is taken at retail figures, which, of course, ordinarily are plainly written or printed on the merchandise tickets. Errors, therefore, are much less likely to occur, since there is no copying of code letters and numbers and no decoding. In fact, many distributors using the retail method no longer mark the cost price on merchandise tickets but

(*Continued on page* 54)

Nation-Wide Collection and Sales Conditions

WHAT THEY ARE AT PRESENT
THE OUTLOOK FOR THE NEAR FUTURE

CREDIT MONTHLY offers its eighth monthly survey of Collections and Sales Conditions. This survey is based upon reports from cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and

■ **This is the eighth monthly report of Collection Conditions and Sales Conditions to be assembled and published by Credit Monthly.**

"Are they paying?", are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each State. You may also see at a glance what cities report a condition of "Good, Fair and Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT MONTHLY. *These* additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

		COLLECTIONS			SALES		
State	City	Good	Fair	Slow	Good	Fair	Slow
Alabama	Montgomery			Slow			Slow
Arizona	Phoenix			Slow		Fair	
Arkansas	Fort Smith			Slow			Slow
	Little Rock		Fair			Fair	
California	Los Angeles		Fair			Fair	
	Oakland		Fair			Fair	
	San Diego		Fair			Fair	
	San Francisco		Fair			Fair	
Colorado	Denver		Fair			Fair	
	Pueblo		Fair			Fair	
Connecticut	Bridgeport		Fair				
	New Haven		Fair		Good		
	Waterbury		Fair			Fair	
Florida	Tampa			Slow		Fair	
	Miami	Good					
Georgia	Atlanta		Fair			Fair	
	Macon		Fair			Fair	
	Savannah			Slow			Slow
Idaho	Boise			Slow			Slow
Illinois	Galesburg		Fair			Fair	
	Peoria			Slow			Slow
	Quincy			Slow			Slow
	Rockford			Slow			Slow
Indiana	Evansville			Slow			Slow
	Fort Wayne		Fair			Fair	
	Indianapolis			Slow			Slow
	South Bend			Slow		Fair	
	Terre Haute			Slow			Slow
Iowa	Burlington		Fair			Fair	
	Cedar Rapids		Fair		Good		
	Davenport			Slow			Slow
	Des Moines		Fair		Good		
	Ottumwa		Fair			Fair	
	Sioux City		Fair			Fair	
	Waterloo	Good			Good		
Kansas	Wichita		Fair			Fair	
Kentucky	Lexington		Fair			Fair	
	Louisville		Fair			Fair	
Louisiana	New Orleans			Slow			Slow
	Shreveport			Slow			Slow

State	City	Collections Good	Collections Fair	Collections Slow	Sales Good	Sales Fair	Sales Slow
Maryland	Baltimore		Fair			Fair	
Massachusetts	Boston		Fair			Fair	
	Springfield		Fair			Fair	
	Worcester		Fair			Fair	
Michigan	Detroit		Fair			Fair	
	Flint			Slow			Slow
	Grand Rapids		Fair			Fair	
	Jackson			Slow			Slow
	Lansing			Slow			Slow
	Saginaw			Slow			Slow
Minnesota	Duluth	Good				Fair	
	Minneapolis		Fair			Fair	
	St. Paul		Fair			Fair	
Missouri	Kansas City		Fair			Fair	
	St. Joseph			Slow			Slow
	St. Louis			Slow			Slow
Montana	Billings		Fair			Fair	
	Great Falls			Slow			
	Helena		Fair			Fair	
Nebraska	Lincoln		Fair		Good		
	Omaha		Fair			Fair	
New Jersey	Newark		Fair			Fair	
New York	Buffalo		Fair			Fair	
	Rochester		Fair			Fair	
	Utica	Good			Good		
North Carolina	Charlotte		Fair			Fair	
North Dakota	Fargo		Fair			Fair	
	Grand Forks	Good			Good		
Ohio	Cincinnati		Fair			Fair	
	Cleveland			Slow			Slow
	Columbus		Fair			Fair	
	Dayton			Slow		Fair	
	Toledo			Slow			Slow
	Youngstown			Slow			Slow
Oklahoma	Oklahoma City		Fair		Good		
Oregon	Portland			Slow		Fair	
Pennsylvania	Allentown			Slow		Fair	
	Altoona			Slow			Slow
	Harrisburg			Slow		Fair	
	Johnstown		Fair				Slow
	New Castle			Slow			Slow
	Philadelphia		Fair			Fair	
	Pittsburgh		Fair			Fair	
	Reading			Slow		Fair	
	Scranton		Fair			Fair	
	Uniontown		Fair			Fair	
	Wilkes-Barre			Slow		Fair	
Tennessee	Chattanooga		Fair			Fair	
	Memphis			Slow			Slow
	Nashville		Fair			Fair	
Texas	Austin		Fair		Good		
	Dallas		Fair				Slow
	El Paso		Fair			Fair	
Utah	Salt Lake City		Fair			Fair	
Virginia	Bristol		Fair			Fair	
	Lynchburg		Fair			Fair	

State	City	COLLECTIONS Good	Fair	Slow	SALES Good	Fair	Slow
Virginia (*Cont.*)	Norfolk		Fair			Fair	
	Richmond		Fair			Fair	
	Roanoke		Fair			Fair	
Washington	Bellingham		Fair			Fair	
	Seattle			Slow			Slow
	Spokane		Fair			Fair	
	Tacoma		Fair			Fair	
West Virginia	Bluefield			Slow		Fair	
	Charleston		Fair			Fair	
	Clarksburg		Fair			Fair	
	Wheeling			Slow			Slow
Wisconsin	Fond du Lac			Slow			Slow
	Green Bay			Slow		Fair	
	Milwaukee		Fair			Fair	
	Oshkosh			Slow			Slow

COMMENTS ON COLLECTIONS AND SALES CONDITIONS

ARIZONA: Collections continue to be "Slow," due to the prices of cotton and copper, although there is a seasonal increase in sales, bringing their rating up to "Fair" this month.

CALIFORNIA: Both collections and sales continue on the upward trend but they can not be considered "Good" as yet.

COLORADO: Business conditions in the State of Colorado run from "Fair" to "Good." The outlook for Colorado and vicinity is very favorable for this season.

CONNECTICUT: There is a slight improvement in general conditions throughout Connecticut. A decided increase in sales during the last 30 days has been noted in Hartford.

FLORIDA: General conditions in southern and southwestern Florida, which showed a favorable report last month, have slumped during the last few weeks owing to the drop in the price of citrus fruit.

KANSAS: Collections show a slight improvement over last month, although the buying is very conservative.

LOUISIANA: Reports from two large trading areas in Louisiana indicate that both collections and sales are "Slow." This is caused by the low prices in cotton and rice. It is too early for any money in the sugar belt. Many requests for extensions are received and failures are increasing. Sales are reported to be lower than last year.

NEW YORK: Reports from various sections of New York State show the rating of "Fair" for business conditions, although the report from Utica is "Good" for both collections and sales.

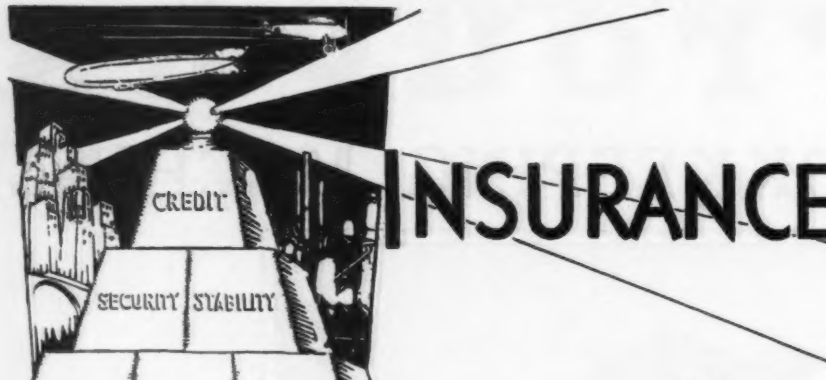
OHIO: Several cities report a slight improvement in conditions over last month. However, the report from Dayton is not so cheerful. Conditions here are worse than they have been at any time and the forming of a bread line for the unemployed for the first time in years indicates that conditions are "Slow." There was a general feeling of optimism up until the last thirty days but this has changed and everyone believes it will be a hard winter.

PENNSYLVANIA: Most reports on collections in the State of Pennsylvania are "Slow" although some cities report "Fair." Mines are again paying good pay and good sales are anticipated.

TEXAS: Sales in Austin, though not yet normal are better than for past ten months and for October, 1929.

CHANGES SINCE LAST MONTH

State	City	Collections	Sales
Arizona	Phoenix		Slow to Fair
Arkansas	Little Rock	Slow to Fair	Slow to Fair
Connecticut	New Haven		Fair to Good
Florida	Tampa	Fair to Slow	Good to Fair
Georgia	Atlanta		Slow to Fair
Idaho	Boise	Fair to Slow	Fair to Slow
Illinois	Peoria	Fair to Slow	Fair to Slow
	Rockford	Fair to Slow	Fair to Slow
Indiana	Indianapolis		Fair to Slow
	Terre Haute	Fair to Slow	
Iowa	Cedar Rapids	Good to Fair	
	Davenport		Fair to Slow
	Ottumwa		Good to Fair
	Waterloo	Fair to Good	
Kentucky	Lexington	Slow to Fair	
Louisiana	Shreveport	Fair to Slow	Fair to Slow
Massachusetts	Springfield	Slow to Fair	Slow to Fair
Michigan	Detroit	Slow to Fair	Slow to Fair
	Grand Rapids	Slow to Fair	
	Saginaw	Fair to Slow	Fair to Slow
Minnesota	Duluth	Fair to Good	
Missouri	Kansas City	Slow to Fair	
	St. Joseph	Fair to Slow	Fair to Slow
	St. Louis	Fair to Slow	
Montana	Billings		Slow to Fair
	Great Falls	Fair to Slow	
	Helena	Slow to Fair	
New York	Utica	Fair to Good	Fair to Good
North Carolina	Charlotte		Slow to Fair
Oklahoma	Oklahoma City	Slow to Fair	Slow to Good
Pennsylvania	Allentown	Fair to Slow	
	Johnstown		Fair to Slow
Tennessee	Chattanooga		Slow to Fair
	Memphis	Fair to Slow	Fair to Slow
	Nashville	Slow to Fair	
Texas	Austin	Good to Fair	
	Dallas		Fair to Slow
Virginia	Roanoke	Slow to Fair	Slow to Fair
Washington	Seattle	Fair to Slow	Fair to Slow
	Spokane		Slow to Fair
West Virginia	Bluefield	Fair to Slow	
	Charleston	Slow to Fair	Slow to Fair
	Wheeling		Fair to Slow
Wisconsin	Milwaukee		Good to Fair



INSURANCE DIGEST

As the credit executive is in closer contact with the insurance field than any other business man excepting the insurance man himself, the Insurance Digest has been inaugurated to fill the need of the credit fraternity for insurance news and information.

Stock Company Insurance Versus Reciprocal Insurance

A bulletin issued by the Insurance Exchange of Chicago explains the fundamental differences between stock company and reciprocal policies and advises every policy-holder to read his policies carefully to determine what type of company he is insured with.

According to this bulletin, a stock company assumes all the risk covered in the contract at a fixed premium payment, guaranteed by capital and surplus. In reciprocal insurance the members exchange insurance with each other, with no capital guarantee, everything being done through an attorney in fact. The power of attorney which must be signed by each member is the vital feature of the transaction, and prospective members should study the rights they surrender and the obligations they assume in signing this power of attorney. Under the stock plan the assured transfers his risk; under the reciprocal plan he assumes it.

Adequate reserves are all-important in insurance, and reciprocal insurance is not safeguarded in this respect as is stock company insurance. The stock company maintains the reserve required by law for the protection of the policyholder on the full amount of the premium, while the reciprocals deduct the compensation of the attorney-in-fact, running between 25 and 35 per cent. and other expenses, *before* setting up their reserves. This weakens the protection by just that proportion, and lack of adequate reserves has been responsible for most of the numerous failures of automobile reciprocals.

Comparing coverages under stock and reciprocal automobile policies, the Bulletin says, "The insurance company immediately upon notice of an accident assumes the burden of the assureds' liability, if any. The indemnifying reciprocal, under the terms of its contract, has no interest in the matter until its subscriber has been sued, judgment rendered against him and the judgment paid by the subscriber. Not until then is it liable and is supposed to reimburse the member, if after the delays of litigation it is still in existence and has the funds with which to pay. Under the indemnification policy if the reciprocal member is judgment proof and has nothing with which to pay, the reciprocal makes no contribution, since its member has paid nothing for which he can be indemnified, and the unfortunate victim of an accident can collect nothing from either party. If a reciprocal member should have a judgment rendered against him for a large amount and was required to pay the judgment before he could collect from the reciprocal, he might be compelled to sacrifice his assets under adverse conditions, and go through bankruptcy. Under stock company insurance, the company investigates the claim, settles it out of court if possible, defends any suit which may be brought against the insured and pays promptly any final judgment given."

Bankers' Blanket Bond Obtainable Without Forgery Clause

Of interest to bankers is the announcement that the Fidelity and Casualty Company of New York will hereafter issue its leading form of bankers' blanket bond without the forgery clause, or with it, as the prospective assured desires.

This modification has been made in order that banks which take particular pains to keep their forgery losses at a minimum may obtain all the other coverages of this broad policy (Standard Form 8) at a material saving in premium cost.

Another feature of the policy is that its face value is irreducible and covers losses suffered at any time during the life of the policy even though they may have occurred several months before they were discovered and other losses may have been paid in the meantime. This feature is particularly valuable since many large fidelity losses are not discovered until several months after they take place.

"Don'ts" for Check-writers

Forgeries in the United States amount now to $150,000,000 yearly, according to a statement recently made by William B. Joyce, chairman of the National Surety Company. Forgery schemes, in October netted their perpetrators $300,000.

The National Surety Company has issued the following list of warnings to the public:

"1. Never cash a check for a stranger until he is identified for you through

some one you know and upon whom you can rely.

"2. Never accept a check just because it looks 'business-like'. Criminals are now counterfeiting checks of well known concerns.

"3. Always verify bank certifications through the certifying bank. Certifications are frequently counterfeited by criminals.

"4. Never do what a stranger suggests in order to identify him, unless the suggestion leads to identification through some one you know and upon whom you can rely. He may have arranged with an accomplice to give you misinformation.

"5. Never sign a check in blank or make it out payable to 'cash' or 'bearer' unless imperatively necessary.

"6. Never leave your check book or cancelled vouchers where any one else can get hold of them.

"7. Always write your checks carefully with good ink, typewriter or checkwriter which will indent the paper. Begin each line at the left hand side and leave no spaces between your words.

"8. Be sure to have a safe place for delivery of your business mail. Do not depend on the type of box that can be easily opened by a criminal.

"9. If possible never let any one else check up your bank book with paid and cancelled checks returned from the bank. This is the one thing that every business man should do monthly and personally wherever possible."

Group Life Insurance Strengthens Purchasing Power

The purchasing power of the country will be materially increased as a result of the payment this year of $90,000,000 benefits under plans of group life insurance in effect in business establishments. This estimate has been made by Vice-President B. A. Page of the Travelers Insurance Company.

According to Mr. Page, payments of benefits this year will result this year from death by disease and accident of more than 51,100 workers and permanent disabilities suffered by 10,700 employees. Total amounts paid out this year under the policies will exceed by more than $12,000,000 the amount paid out last year on policies of this type.

Many lines of business are adopting group insurance this year when employees need such assistance the most, and it is estimated that by the end of the year plans will be in effect in 30,000 business concerns in the country, covering fully 7,000,000 workers and amounting to $10,500,000,000.

Claim payments during the year will average almost $1,500, a sum equal to the average amount of insurance made available under group life plans to the 7,000,000 employees of the 30,000 commercial establishments. The average payment of $1,500 guarantees that the family of a victim will suffer no loss of earnings for a whole year after the death of the victim.

Fire Insurance and Improved Construction

Fire insurance has been a major factor in bringing about striking improvements in the construction of American homes, office buildings and manufacturing plants during the past decade, it is declared by President Ettlinger, of the Empire Fire.

"How does the builder of a modern fire-proof building of brick and steel, induce tenants and lessees to come into his building from older quarters, despite the fact that his rent rate per square foot is obviously higher? It is simply because he can show that the insurance rates of his building are so low, as compared to the rates upon older buildings with excessive fire hazards that floor space is actually cheaper when it is in a building that has the maximum safeguards against fire damages.

"In other words, the manufacturer finds it more economical to build a modern structure, in keeping with underwriting requirements, than to continue in business in an antiquated building. If he is a renter, he finds that the difference in insurance rates to protect his products, will attract him to quarters that are as nearly fireproof as present day construction and equipment can provide.

"In the home construction field, the influence of fire insurance has been a powerful one, both directly and indirectly, in encouraging the use of fireproof material and the development of complete fire-protection equipment within the community. Indirectly, the fire insurance companies have been leaders in educating the public as to the dangers of crowded, haphazard buildings, especially when the houses are of flimsy construction. Directly, these facts have been more forcibly brought to the attention of the builder and of the home buyer through insurance rates. Home buyers find that the initial selling price of the home is not the true cost and that 'cheap' houses, that are literal fire traps, are actually more costly than are those that are well constructed and in neighborhoods provided with adequate fire-fighting equipment."

Business Men and Fire Prevention

Business men generally will be interested in the address delivered by William F. Eichfeld, president of the Milwaukee Association of Commerce, at the opening of the seventh annual fire prevention school conducted by the association. President Eichfeld said in part:

"What interest has organized business and industry in fire losses? Do you know that twenty-one factories or mercantile establishments burn every day? Out of every 100 industrial establishments that burn, fourteen suffer extensive reductions in credit, seventeen fail to issue financial statements after the fire, twenty-six register large losses in business, and forty-three *never resume operations.* Almost one-half of the business houses that burn never open their doors again; their employees must seek other jobs. That's why business is interested in fire losses.

"Let me briefly summarize why industry is interested in fire losses:

"A fire in an industrial plant disrupts the entire production schedule in that plant. It requires an expensive period of readjustment that demoralizes the manufacturing plans.

"Every fire necessarily increases production costs.

"Fires destroy the faith of customers who are depending upon the firm for production deliveries.

"The credit rating of the firm is affected materially by fire losses.

"Every fire temporarily, and sometimes permanently, throws a number of employees out of work.

"Fires are distinct signs of inefficiency, affecting all lines of business from employer to employee, from producer to consumer.

"While 66 per cent. of all fires occur in the homes, industries are concerned because of the fact that these are *their* employees, and anything which affects the home life of an employee necessarily affects the job for which he is responsible."

How We Do It

(*Continued from page* 13)

by the Stenographic Department and the step automatically goes out. The girl handling this stamps the card with the proper date to show when the step was sent. No carbon copies are kept.

Form notices of payment due are sent out ten days in advance of payment due date. The customer has his choice of payment methods, i.e., he may mail his payment direct to Indianapolis or he may pay the instalment or account at his bank. The direct payment form is made up as a return envelope. This permits us to immediately identify the check with the proper account. The bank notice form is made in triplicate, the original, a form of sight draft, going to the bank, the first carbon copy to the customer and the second copy for our files. These are made in one operation and are enclosed in two different open face envelopes with the slots placed so that the bank's name and address shows through one and the customer's through the other. This is a great timesaver.

Form letters are made up in series lettered A, B, C, D, E, F, G, H. Each series consists of ten distinct steps. Steps may have one or more letters or notices. A step may be indicated as A1-CH, which translated means, the A series, step 1, customer letter on Holcomb & Hoke letter-head. The first past due notice is alike in all steps. If the customer pays through the bank there is a follow-up letter to the customer and a notice to the salesman. There are three of the latter. They go out in the first three steps of each series. The bank letter in the A series would be indicated, A1-BH.

The first notice is a printed card which goes out in a special plain envelope with no return card. We try to get the customer to tell us the reason for non-payment. It is entirely impersonal and has never created any disturbance nor caused offense. We find that the first two and the last two instalment payments are the hardest to collect. If we can collect six instalments we are reasonably sure of getting the rest of them. Copies of all collection correspondence are sent to the general files. We have only three files, note and contract file, credit file and our Kardex-Rand files.

Some of the letters along about step five to the customers are sent out in plain envelopes. We have one stunt used to get some word from a customer. We call this a second-page letter. It looks like this on a second-sheet:

Page 2. John Jones.
your payment $30.00 to us or shall we proceed with the contemplated action.
Cordially yours,
HOLCOMB & HOKE MFG. CO.

And that's all there is to it. The customer ordinarily writes to us and says that he "received only the second page. Please send the first page." In this way we have been able to get something out of many accounts where nothing else has succeeded.

Our system is such that letters to customers about past due payments rarely cross their remittances in the mails. Instead of the remittances going directly to the cashier's department, they are sent directly to us, are sorted and a signal of a definite color placed on the collection card together with a pencil check mark opposite the number of the instalment which has been paid. This indicates immediately to anyone handling the account that a payment has been received covering the particular instalment which has been checked.

Each member of the department has a loose-leaf binder in which are kept instructions issued by the Credit Manager as to the different operations with which the particular person will come in contact. The master instruction book is kept and in this are placed thorough and detailed instructions as to the handling of any situation which may come up. This is a working manual. It tells how. It is the result of years of experience and gives the best method to use in handling particular problems.

Return Record Form

One form which we believe to be unique is what we call a Return Record form. This form is made up by the correspondent who orders any goods returned or who advises any customer that he can return goods for credit. It is then sent out to the shipping room and held until the goods are returned. It is made up in triplicate. It has eliminated for all time any question of proper credit being given to a customer for returned goods. The shipping department has absolute instructions not to accept anything from anybody unless they have a return record. Failure to give proper credit for goods which have been returned is eliminated.

Our Departmental personnel consists of a General Credit Manager, his assistant, three correspondents handling current accounts and two correspondents handling bad and doubtful accounts and a house attorney. There is one clerk who has complete charge of the Kardex Rand cabinets; a clerk who sends out the notices of payment, figures interest on accounts wherever necessary and handles the mailing of the introductory folders; a departmental messenger and file clerk; a clerk who handles the opening of the credit files, checks the orders, gives credit where possible on the basis of the credit lines which have already been established, and a clerk who handles the filing of contracts, and keeps track of the commissions earned by the Travelling Adjusters who usually number about fifteen.

The house attorney handles all the lawsuits, bankruptcies, receiverships, foreclosures, replevins and suits on promissory notes which customers have previously signed. He also takes care of general questions which arise in any business office on which a legal opinion is required. This department handles its own lawsuits without the aid of any outside attorney in the State of Indiana wherever the trip can be made without great expense.

The General Credit Manager has a private secretary who is the only stenographic assistance in the Credit Department.

The general organization stenographic department is centralized. However, machine dictating is used throughout the department as this is a great saving in expense, and also makes it possible to answer a letter at the time it should be answered, when the correspondent has in his mind the important facts.

One of the outstanding features of the Credit Department administrative control is the quota. Each man in the department is given a collection quota at the first of the month. In most of the cases this is derived from the expectancy. That is to say, the total of the items which are expected to come due that month is made up, and the quota is figured on the basis of that amount. Direct productive effort is, therefore, on a competitive basis. Cash prizes are offered from time to time to the winners in the various divisions. A record is kept on a blackboard in the General Credit Manager's office. This record is changed daily. The monthly quota is divided up over the number of working days in a particular month and a record is kept of the amount of quota made up to date and the plus or minus is scored, with the percentage of quota made to date. This has worked out very well. It has made it possible to not only keep track of the results produced by the personnel but it has contributed materially to keeping every man in the department on his toes all of the time.

We also have a Comparative Sales Volume report. The Credit Manager has a complete, thorough knowledge of the sales volume for each day, and how it compares with the same day of the previous month and the previous year. We, of course, know from our daily cash deposit book what the bank deposits have been for that particular day and each day for the past six years.

We also make what we call a Cash Receipt Tendency report which is made up on the 8th, 15th, 20th and 25th of each month. This tendency is based on averages over years and gives a very close idea of what the total cash receipts will be during a particular month. Monthly reports are also made on every angle of the procedure and operations of the Department.

In my estimation the greatest thing that any credit man can do today to build up the profession is to keep before him constantly the one word "education." By this I mean his own education in better methods of obtaining information about the financial status of the applicant for credit; education of his customer in better methods of merchandising, in better methods of accounting, in better methods of granting credit and making collections; education of employees in his own department in the fundamentals of the credit profession.

I believe that every credit man will agree with me when I say that the average small merchant (and the small merchants form the majority of business men), does not know at all times where he stands from a profit and loss standpoint. I recall distinctly talking to one merchant and asking him what his stock turnover was. From the look on his face I believe that he thought I was talking about some kind of an apple turnover. I am always reminded of the chap who had the two files—one for his unpaid bills and one for his paid bills. They were the old fashioned files with the long, sharp spindle on them. Every time he got a few extra dimes in the cash register he would take two or three bills off the top of the pile of unpaid bills and heaven help the fellow who had his bills on the bottom of the pile. He never did get to him.

Undoubtedly, one of the things which has fostered much friction between sales and credit departments is a reluctance on the part of the credit man to admit that he could be guilty of trying to sell an idea or of having anything to do with selling in any way whatsoever. I believe that any credit man who effects collections through salesmen will admit frankly that the best collector he has among the sales force is by far the best salesman. Isn't it true that this is always the case, because collection is after all nothing more or less than a type of selling—a very high type at that? I like to get out in the field with the salesmen. I like to call on customers with them. I like to go out on collections myself and meet the public and get the outside viewpoint. A credit man who sits at his desk all day long will always have a narrow viewpoint. Undoubtedly one of the first things that every credit man today should take should be a first class course in salesmanship. If he can't get it in the organization he should go out and get it in some school for salesmen. Every credit man sells. He sells the customer on the idea that his credit is weak and he must have a guaranty or an endorser. He sells the sales department on the fact that an order which has been taken or an account which has been opened is not the kind of order or account that the house wants to carry on its books. He sells the salesman on going out and making collections. As a matter of fact, he has to be a super-salesman, if you please. It seems to me that the only way that he can possibly be the salesman that he should be is through a thorough knowledge of the fundamentals of his particular work.

Up over my desk is a little sign or a motto for the department. It is adopted from a famous remark of J. Ogden Armour. "Come up here with a decision and not for one." I endeavor to make contact with the employees on that basis. I find that it builds employees, makes good collection men because they are compelled to form their own opinions and make a decision. When they bring a case up to me for consultation I always ask them what decision they have come to. This makes men stand on their own feet and builds them up because they are compelled to think things out for themselves and decide what they must do. Ordinarily I find that their decisions are right and that they can go right ahead and take care of the situation without any help from me.

"Don't Worry"

In my mind the right mental attitude on the part of the Credit Manager is absolutely necessary to proper credit management. I think if I had my way about it I'd hang a big sign up in every credit department "Don't Worry." There is certainly plenty in credit work to cause the credit man to worry if he is so inclined. If he understands how and where to get the information and knowledge about a risk, and then makes a decision based on that information, he certainly should have no cause for worry if the account does not pan out as he thought it would. Every business, that grants credit, will have losses. One must take that for granted.

To me there is a fascination about credit work, particularly in the line of business in which I am engaged. I am really happy in my work. I enjoy it and love it.

I sincerely hope that the National Association of Credit Men will keep up its good work in fostering the improvement in the position of the credit man in the modern business.

"There are great truths that pitch
their shining tents outside our walls,
Though but dimly seen in the gray dawn,
They will be manifest when the
light widens into perfect day."

How Advertising Creates Credit Standing

(*Continued from page* 18)

propriation when a business depression occurs. In such an event it is the duty of the credit manager to decrease the customer's credit limit because it goes without saying that a lack of advertising means a lack of sales.

When business is at low ebb, salesmen have to work harder to sell their products. A decrease in their efforts is reflected not only in their sales but in the morale of their customers. A salesman using all his efforts to make a sale will probably not only succeed but will also convince the potential customer that "business is not as bad as it is represented". When in that frame of mind the customer will be more willing to purchase goods and pay his bills when they fall due than if he is convinced that "business is on the down grade". The example of the salesman applies to advertising. If anything, it should be increased during a business depression, coinciding with the increased efforts of the salesman, in order that the standing of sales will be maintained and the morale of customers strengthened.

Some interesting conclusions can be drawn from the accompanying chart. Here we find a comparison of the net profits of thirty companies that increased their advertising appropriations during the depression of 1921 and of forty-six companies which decreased their advertising during the same period.

The relatively slight decline in the profits of the companies that sustained their advertising efforts can be noted in the chart. Their profits did not decline as soon as those of the other companies. Again in 1923 the profits of these companies that decreased their appropriations fell off while the other companies continued to gain.

Certainly these changes in profits affected the cold figures of the balance sheets. Assuredly the thirty companies were better risks than the forty-six and I venture to say the credit men felt better in the case of the thirty and maybe some of them did not know that advertising was the reason.

Advertising can build for permanence—it can develop financial stability in times of business depression and it can make additional financing easier. All of which should be of vital interest to credit men.

The "Panic" of 1930

(*Continued from page* 20)

nite period. Current price ranges are based on current trading volume. Wholesale liquidation of "demand" loans usually involves *another* basic level of market prices. Who can foresee the market price of 10,000,000 share sales in panic times on the basis of 3,000,000 share sales in normal times? Market price ranges are the fluctuating result of this sort of formula of my own concoction: Current Market Price Range depends on:

$$\frac{(\text{Total Net Assets}) + (\text{Estimated Yield}) + (\text{Buying Pressure}) + (\text{Investable Funds})}{(\text{Marketed Securities}) + (\text{Basic Rate}) + (\text{Selling Pressure}) + (\text{Borrowing Rate})}$$

Vary any of these factors, and the market price range varies!

By amortizing collateral loans methodically, however, the hazard is constantly reduced; and thereby controlled to a definite extent. At any rate, it may soften the sudden blows which panic times strike! (And in fact it may help to avoid them!)

No security is sure to maintain a constant net worth, regardless of market price increase or decrease. Current market price range is not a safe criterion for an indefinite lending basis.

As everyone knows, capital values depreciate at times; capital values of goods—consumer goods and producing goods. Securities are, in effect, paper equivalents for capital values of consumer goods and producing goods *plus* their profits if any. If gross profits were not obtained to offset this depreciation of consumer goods and producing goods—of finished products, of goods in process, of raw materials, etc. —then these securities would *always* tend to depreciate. Depreciation reserves depend for their accrual on gross profits if and when derived. Gross profit being uncertain, the sensible assumption regarding the physical evaluation of all securities is that they may *tend* to depreciate. That is a safe attitude for bankers to assume. Therefore, when the American banking system undertakes to finance the underwriting and distribution of its security inventory, it should do so on the logical assumption that this security *may* depreciate. Like loans on merchandise inventory, loans on securities should constantly be amortized to insure safe liquidation. The so-called stockholder, not his banker, should carry the risk, for it is the stockholder, after all, who gets all the profit, if any.

There will be many students, business men and bankers who will look

askance at this, and ask, "Don't securities appreciate very often?" "Haven't market prices of negotiable securities advanced steadily in value for the past ten years?" "Is not the tendency of stock prices to increase, rather than to decrease, in recent years?" "Why talk about this matter of security depreciation which does not exist?"

I will answer them: "What do you mean by appreciation? Do not confuse it with market price!"

Falling dollar values and the increasing number of individual investors have raised market prices more often than really increasing assets have done. These factors must be remembered. It does not mean at all that capital has ceased depreciating. Replenishment is always required. It is the risk which management and investing capital must carry—it is not for the banks to gamble on!

The technical position of a security affects its immediate relationship to the current market price range. In the course of the long-term trend, adjustments sooner or later cause these divergencies between current market price range and asset value to correct themselves. I am quite sure that a large part of any bull market is as much influenced by the increase in the number of buyers as it is by any increase in industrial earnings. Indirectly, industrial earnings mean prosperity, and this, of course, increases the number of buyers. This vicious cycle in effect means a pyramiding of prices, which is perhaps more or less geometrical, while the increase in net assets is more or less arithmetical (considering the tendency to diminishing returns encountered in so-called big business). This divergence necessitates an imperative correction over any period.

And it brings home one important fact: that a current market price range is no truthful indication of a basic security "value"; a current market price range is dictated largely by the current volume of turnover. When loans are made by 100 banks to 1000 holders of U. S. Steel on 1,000,000 shares of Steel (based on the current market price range of a certain day brought by the sale of only 10,000 shares of Steel), you can see the whimsicality of the situation. Loans should theoretically be made against 1,000,000 shares on the basis of the hypothetical price range of 1,000,000 share sales. This is a sounder measure of the negotiability on which loans of this character should be considered; and who can ever estimate this basic market price range?

Of course, there is no way to figure the basic market price range derived from a simultaneous selling of a nationwide collateral supply except by panic conditions, for panic conditions are nothing more or less than a nationwide dumping of hoarded securities on a certain day. (Buying pressure—mentioned in my so-called formula—is then nearly wiped out!) Ticker-lag helps further to confuse these price ranges.

Inasmuch as there is no way of forecasting these panic price ranges, (since all "panic prices" inevitably reveal drops to unforeseen levels) the *next* best step is to arrive at a procedure which will obviate the necessity of considering a *simultaneous* sale of collateral, which the present system of "demand loans" entails.

This method would be to curtail the "demand loan" practice, and to make collateral loans on a time basis: and in order to further obviate sudden dumping to distribute the expiration dates of these loans over an extended period by requiring partial amortizations in the course of the loan (as we do in case of loans against warehouse receipts on stored merchandise) in order that any single collateral loan may methodically liquidate itself completely within a certain definite period!

It may be argued that complete liquidation will mean a decided shrinkage in the amount of financing our national system will carry. "Securities are made to be loaned on", is a common expression.

Is merchandise made to be loaned on? You can see how far the horse has been set before the cart in contemporary ways of financial thinking that this objection can be seriously voiced. Securities are issued by companies for the purpose of raising or refunding capital, and not for the purpose of speculation. American bankers did not get Congress to outlaw lotteries that Wall Street might take its place. Wall Street has its necessary and legitimate functions. When securities are issued to raise capital, they must be sold; and a market must be maintained for them. But they are not sold by any means before they are fully paid for by the investing public.

By confining all national lending on securities to a strictly "pay off as you go" basis, controversial questions on interest rates, broker loans, market prices and so forth, could be sensibly avoided in future. A steady process of security digestion could be insured. The natural governor of security supply and demand would be a self regulating influence.

The Business Library is the window through which you may see the panorama of business progress and development.

Conducted by
Frank A. Fall, Litt. D.
Director of Education and Research
N. A. C. M.

THE BUSINESS LIBRARY

Accounting vs. Fraud

FRAUD—ITS CONTROL THROUGH ACCOUNTS. George E. Bennett. The Century Co., N. Y. 1930. 135 pp. $1.50.

Published under the auspices of the American Institute of Accountants, this useful volume comes from the pen of Professor Bennett of the College of Business Administration, Syracuse University. Dr. Bennett is responsible also for a number of other texts, including "Basic Accounting," "Advanced Accounting," "Auditing," and "Accounting Systems."

Fraud in business is almost invariably tied in to accounting in one way or another. Cases of direct theft are few in number as compared with frauds perpetrated by employees who have to do with the accounts or with the handling of money which is recorded on the books.

As false entries of many kinds are resorted to by persons who commit or attempt to commit fraud, one of the most important responsibilities of the accountant is to detect such entries and devise means whereby the possibilities of fraud are kept at the minimum.

This subject has been treated in a general way in texts on accounting and auditing, but Dr. Bennett has developed it intensively, and has thereby rendered a real service to business.

In Part I, which bears the heading "Background," the author discusses internal accounting checks, legal distinctions, limitations in the application of internal-check principles, charge and discharge, and business organization as it affects the possibilities of fraud.

Part II, "Internal Check and Various Business Transactions," covers purchases and returns, sales and returns, cash receipts and disbursements, payrolls and internal transactions. Part III, "Appendices," includes a bibliography, selected legal cases and review questions and problems.

Attempts are frequently made to cover theft of funds by crediting wrong accounts. This requires collusion between the cashier and the keeper of the customer's ledger. This method, however, due to the development of better accounting methods and increased watchfulness on the part of executives, is not as popular as it once was.

Journal entries should be carefully scrutinized. It frequently happens that when a delinquent account is paid up no record of the payment made is entered in the cash book, but the crooked employee who handles the transaction makes a journal entry charging off the balance as a bad debt. To meet this situation Dr. Bennett suggests the adoption of a rule that all entries in the general journal have the approval of one or more specified executives prior to inscription. Such a rule would substantially reduce the possibility of this method of fraud.

Executives should be on guard, also, for the following methods of stealing cash receipts:

1. Over-footing the sales-discount column.
2. Charging some expense account to affect a credit made to a customer.
3. Selling articles such as containers without entry therefor.
4. Holding out interest received on notes and accounts.
5. Charging accounts which are inactive or which represent persons who are parties to a conspiracy to defraud.
6. Withholding payments received on accounts charged off.
7. Borrowing from month to month.
8. Switching bank balances.
9. Raising checks after they have been returned from the bank.
10. Utilizing false sheets where records are loose-leaf (these to be inserted for purposes of examination.)

THIS MONTH'S BUSINESS BOOK

PROSPERITY AND CONSUMER CREDIT. Julian Goldman. Harper & Brothers, N. Y. 1930. 197 pp. $3.00.

This book, whose author heads up a large chain store organization, presents the most vigorous brief for instalment selling that has appeared since the deferred payment principle entered its expansion period several years ago.

Mr. Goldman resents the fact that some people are still inclined to consider this method of financing the consumer as a sort of get-rich-quick device, luring the buyer into extravagance and tempting the wage-earner to waste his substance on things he does not need.

On the contrary, says the author, instalment selling has served to stimulate production; to multiply the opportunities for profitable employment; to improve the quality of commodities, while lowering their cost to the consumer; to bring a wealth of cultural benefits to our wage-earning masses; to develop character and a sense of business responsibility among the people; to promote individual resources while building national prosperity; and to enable both wage-earner and salaried worker to share in the advantages of the credit system on which American business is founded.

As a matter of history, Mr. Goldman suggests, instalment buying is probably one of the oldest of all the economic forces operating throughout the civilized world today. Its roots are in the far past. There is reason to believe that the system was used by the Babylonians, centuries before the Christian era.

Coming down to modern times, it was out of the business depression of 1921 that consumer credit, under the label of instalment buying, demonstrated its importance to both the producer and the consumer, as well as to the nation as a whole. The automobile industry turned the tide by "voluntary abdication as the aristocrat of America's products." Becoming a real utility for all, instead of a plaything for the rich, the automobile led the way to a remarkable expansion of general business.

What about instalment selling in the present depression? Mr. Goldman's concluding chapter is, in effect, an answer to this question. The principle, he says, has come through safely and successfully. He quotes Henry Ittleson, President of the Commercial Investment Trust Corporation; David Sarnoff, President of the Radio Corporation of America; and Major Milan V. Ayres, analyst of the National Association of Finance Companies,—all to the effect that while the instalment device has been under pressure no serious break has appeared.

If the principle were misused, Mr. Goldman concludes, it would have crumbled long ago; the test, during eight years of the most intensive industrial activity known to history, and with instalment selling as a factor, has made this policy part of our normal business thinking.

A Banking Handbook

BANKING THEORY AND PRACTICE. Luther Harr and W. Carlton Harris. McGraw-Hill Book Co., N. Y. 1930. 562 pp. $4.00.

This comprehensive text on banking is a product of the Wharton School of the University of Pennsylvania, where Dr. Harr and Dr. Harris are assistant professors of finance.

The book is well balanced, covering operations of all the departments of the modern commercial bank, whether carried on by self-contained banking units or by subsidiary, affiliated or allied institutions. Theory and practice are admirably correlated, with the stress on practice, which is exactly where it should be.

In their chapter on "Branch and Chain Banking," the authors point out a danger connected with widespread group banking, because of the lack of supervision over the activities of the group as a whole, although the individual units might be subject to state or national supervision. A group-banking system places a tremendous power in the hands of the operating institution, corporation or individual, and, in the opinion of some bankers, the creation of such a responsibility places the banking business in a vulnerable position, particularly if control should fall into unscrupulous hands.

It seems probable that some form of government control over group banking will soon be formulated, and the authors express the hope that in such event the regulation will not be along the lines of drastic restriction or prevention of some degree of unified control of large systems. The present Comptroller of the Currency

is advocating an extension of the rights of national banks to organize branch systems, and, as far as can be observed, the normal evolution of banking in this country seems t[illegible]e in that direction.

The authors express the furt[illegible] that the question of branch and gro[illegible]ing will be viewed from a dispassionat[illegible] and that the banking legislation of this country will be modified so as to permit the banking business to develop in a manner suitable to meet the many financial problems of the present period, and in a way which will enable the banks to aid American trade and industry most effectively.

The banking [illegible]ness, the authors suggest in [illegible]g chapter on "Banking Tendencies," should be more completely professionalized. The changed position of the United States in the world of finance, the tendency toward large scale banking, the many economic problems created by changes in business organization, and development in the arts and sciences, all place great pressure upon the American banker. This will probably result in a demand for highly trained men who are conversant with sound banking theory and practice in all its phases. Thus it would appear that the banking business will become professionalized and greater stress will be placed upon the need for a thorough training before one can qualify to become an executive in a banking institution. This should undoubtedly raise the level of the banking profession.

Future of American Banking Abroad

(*Continued from page* 22)

an American bank depending upon foreign banks for its information is able to procure for its clients service as good as or even better than that secured by an American bank possessing foreign offices. In many other cases, old and well-established foreign branches obtain for the home office information not to be had from foreign banks.

3. *Cost of Banking Service.* Under the correspondent method, both the American bank and the foreign bank collect regular commissions in financing our foreign trade. Theoretically, it appears that when an American bank is handling our trade through its branch abroad, the costs could be lowered. Actually, American banks collecting through their own foreign branches can and, in many cases, do charge smaller total collection commissions than are charged when the banks collect through foreign banks.

4. *Understanding of American Needs.* Sometimes the American foreign trader may be better served by having his operations handled by the foreign branch of an American bank rather than by a foreign bank because the American foreign branch bank manager understands just how the American trader wants his business handled and transacts it according to American business methods. Misunderstandings due to different nationalities, different ideas of business procedure, and different codes of commercial conduct do not arise.

Perhaps foreign branches of American bank[illegible]erve our foreign trade better tha[illegible]oreign banks in general in the direction of actively promoting Americ[illegible] foreign trade,—not because of any nationalistic favoritism or patriotic bias, but just because practically all of the managers of our foreign branch banks are Americans. The background, early life, and training of these managers being American, they naturally find their thoughts and ideas closely tied into American life and institutions. It is only natural that they should take a live and active interest in promoting the trade of the companies and personalities they know so well.

The foregoing paragraphs on how American banking abroad serves our foreign trade indicate clearly that the overseas system of American banks is of real and definite value to American foreign commerce. Dealing with American foreign branch banks is not at all times, at all places, and in all cases preferable to dealing with foreign banks. But very often it is. And the more than two hundred offices abroad of American banks represent to American foreign traders additional banking facilities of first importance.

The third erroneous idea of the pessimists in regard to American banking abroad is the idea of eventual failure of foreign banking by Americans. This feeling of gloom is no doubt due to an unsound analysis of the great withdrawal of foreign offices by our banking institutions after the world crisis of 1920. A great many foreign offices were closed out as failures between 1920 and 1925, it is true. But the great majority of failures were offices of American *foreign trade banks* and not offices of our great banks and trust companies.

There were six of these unfortunate foreign trade banks. Five were organized as a result of the war boom and one dated from 1913. Unlike banks and trust companies, they were a special type of banking institution empowered to engage only in international banking and prohibited from carrying on a regular domestic banking business in the United States. Now the expansion of these American foreign trade banks was wild, frenzied, and delirious. Caught up by the exultant, enthusiastic, and exaggerated optimism of the war boom, they had grown within a few years from nothing to a group of institutions having 81 foreign branches. When the bubble of post-war inflation burst, a great many of these branches were found to be located in places of little or no commercial importance, and the banks were forced to liquidate. When these six foreign trade banks with their great number of foreign branches went out of the picture, they naturally reduced the total number of American banking offices abroad enormously.

But, on the other hand, the expansion of our national banks and our trust companies through the establishment of direct foreign branches was quite successful. The first foreign branch of an American trust company (what is now one of the London branches of the Equitable Trust Company of New York) was established in 1887 by the Jarvis-Conklin Mortgage Trust Company, and the foreign branches of American national banks date from 1914 when the National City Bank of New York began its expansion. Taking the

whole period from 1887 (through war boom, world crisis, and depression) to 1926, we find that only one of all the regular foreign branches established or acquired by ten of the eleven national banks and trust companies has been closed. The eleventh institution, a national bank, opened a very large number of branches (64) in a too rapid expansion and after the world crisis in 1920 withdrew 17 of them. This bank, however, has successfully recovered and possesses a great many more foreign offices today than it had at the top of the post-war boom in 1920.

The foregoing analysis of the war-boom and reaction in American banking abroad fails to justify any gloomy forebodings as to the future of our overseas system of American banks. All we see is that the foreign trade banks made a mess of foreign banking expansion. They closed up shop several years ago, and now all of our foreign offices are owned by our national banks, trust companies, and old established private banking houses which altogether have about twice as many foreign offices today as they had at the peak of the post-war boom.

The answers to a detailed confidential questionnaire I recently sent to banks and trust companies having foreign banking offices are interesting. One of the institutions reports its foreign branches as breaking even; the others state that the branches are making money. In some cases most of this money was being made by financing foreign trade. But there were other sources of branch income as indicated by all institutions answering "yes" to the following three questions: 1. Makes some money by lending funds to local people and concerns of foreign country in which it is located; 2. Makes some money by lending funds to American firms located in the foreign country in which it is situated; 3. Makes an appreciable amount by serving American tourists and commercial travelers. Some institutions gave speculating in the exchanges as one of the sources of branch income,—an activity much more important, no doubt, in the days of dislocated and fluctuating exchanges some years ago than it is today.

All this indicates that the overseas system of American banks will probably maintain itself and possibly expand. But to obtain really clear ideas as to the future of American banking abroad we need to go deeper in our search for a fundamental principle. The professors of economics, probably due to the slight attention they have given the subject, have formulated no tenable theory of future American foreign banking expansion. Certainly the theory that the future of American banking abroad depends upon the future of American foreign trade cannot be accepted as setting forth the prime fundamental of foreign banking expansion.

Great foreign trading nations (whether foreign trade is measured per capita or by total volume) do not necessarily establish foreign branch banks, or better stated: the banks of nations whose foreign trade is large are not led simply by that fact to establish branches in the foreign field. Take the case of the United States. Our total foreign trade rose from $404,774,883 in 1865 to $4,278,892,383 in 1913,—a truly considerable volume in comparison with the foreign trade of the great European nations. The foreign commerce of the United States had increased tenfold in value in the half-century preceding the World War and yet it was financed by foreign banks just as completely in 1913 as in 1865. For more than 50 years we had been

one of the three greatest exporting nations in the world. Why had our banks, unlike those of England, Germany, France, and Holland, failed to establish any appreciable number of offices abroad?

A study of the history of international bank[illegible] and foreign trade must lead one to [illegible] the following theory: *"Foreign branch banks are characteristically, although not universally, established by the banking institutions of capital - exporting countries."* The establishment of a branch itself is an export of capital. Our banks did not begin to establish any appreciable number of foreign branches until we had become a creditor nation,—a capital-exporting country.

Thus, the future of American banking abroad depends fundamentally upon the progress of the United States as a great creditor nation. Since the World War we have become one of the great creditor nations of the world, and economic theory suggests that we shall continue capital-exports in the future as in the years just past. Our increasing efficiency of production coupled with the progress of national savings creates a surplus of funds which flow out to the countries of the world seeking investment. Our foreign branch banks furnish a profitable employment for such funds, and that is why I expect to see the number of our branches slowly increase, especially in the countries to the South and the East which are relatively capital-poor and where high interest rates obtain.

Tenants' Betterment Insurance

(*Continued from page* 23)

such betterments and improvements constitute a part of the building and do not cover any fixtures or fittings *not permanently attached to the building.* The date of the lease is indicated on the form and the number of years it has to run, and also the expiration date of the lease.

The premium is arrived at as in the leasehold interest policy. The liability on the first day of the month of the policy term is added to the liability on the first day of the last month of the policy term and divided by two to arrive at the average amount of liability. For practical illustration—if on the first day of January, when the policy is issued, the liability is $12,000. and on the first day of December, the last month of the policy, the liability is $1,000. the the total of the two would be $13,000. which divided by two produces an average liability of $6,500. during the term of the policy.

The amount recoverable under the above mentioned form is reduced pro rata from month to month and in case of loss the amount paid would not exceed the value of the interest of the assured at the time of loss or the amount of the policy. It is important to know that, under this form, if there is a fire and the lease is *not* cancelled the maximum amount collectible is based upon the replacement cost of only such improvements and betterments damaged by fire. If the lease is cancelled by fire the maximum amount collectible is the total replacement cost of all improvements and betterments whether or not damaged by fire.

There is much more to improvements and betterments insurance than appears on the surface and the credit manager, as well as the interested tenant, and even the building owner, should consult a well trained insurance agent who is connected with an experienced fire insurance company thoroughly familiar with such insurance. If the tenant and the building owner each insure the improvements separately there is a question of

"double insurance". In some parts of the country the insurance laws permit the lessee to have the insurance written in his name only along with a provision to the effect that such insurance applies to his benefit without respect to any insurance that the owner may carry on the building. The points of co-insurance should be watched, also the matter of replacement costs.

There are these three possible methods by which to insure betterments and improvements. First, as separate insurance written in the name of the tenant only and paid for by him. Before insuring in this manner he should carefully read his lease and also have some knowledge of the building owner's fire insurance contracts. He would also want to decrease his amount of insurance from time to time. Secondly, he can insure the improvements jointly with the building owner. Third, he can consider a diminishing form as proposed. Should the tenant carry a general cover under which he insures his contents on a monthly reporting basis he can include his improvements and betterments in such a policy.

Economic Credit Council

(*Continued from page* 24)

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F. A. Pyke, The Pyke Manufacturing Co., Salt Lake City, Utah.
F. B. Ramey, The Texas Company, Atlanta, Ga.
O. G. H. Rasch, Interstate Electric Co., New Orleans, La.
Guy A. Reed, Fargo Glass & Paint Co., Fargo, N. Dak.
J. B. Ricketts, Williams-Richardson Co., New Orleans, La.
H. T. Riddick, The Osborn Manufacturing Co., Cleveland, Ohio.
R. P. Robinson, Groneweg & Schoentgen Co., Council Bluffs, Iowa.
R. E. Roddy, Armour & Co., Kansas City, Kansas.
C. A. Rogers, Federal Motor Truck Co., Detroit, Mich.
L. F. Rosenberger, The Coleman Lamp & Stove Co., Wichita, Kansas.
G. H. Rothweiler, Murphy Varnish Co., Newark, N. J.
O. A. Rowland, Mississippi Valley Trust Co., St. Louis, Mo.
C. M. Rucker, West Virginia-Kentucky Hardware Supply Co., Huntington, W. Va.
V. L. Saxe, Cragin & Co., Seattle, Wash.
C. G. Schact, Schact-Tuck Co., Rockford, Ill.
Fred H. Schrop, Colin B. Kennedy Corp., South Bend, Ind.
John A. Sheedy, The Syracuse Trust Co., Syracuse, N. Y.
E. W. Shepard, Graybar Electric Co., Inc., N. Y. C.
L. Siemens, H. Ehrlich & Sons Mfg. Co., St. Joseph, Mo.
P. J. Silberstorf, General Cigar Co., Inc., Chicago, Ill.
O. M. Silseth, Bergseth Fish Co., Fargo, N. Dak.
J. D. Simpson, Little Rock Tent & Awning Co., Little Rock, Ark.
E. P. Singleton, Nash Hardware Co., Fort Worth, Texas.
D. G. Slee, The France Stone Co., Toledo, Ohio.
H. W. Smith, Grand Rapids Bedding Co., Grand Rapids, Mich.
A. P. Spaar, Woodward, Wight & Co., New Orleans, La.
C. C. Steele, Strutwear Knitting Co., Minneapolis, Minn.
A. E. Stephens, Albany Hardware & Iron Co., Albany, N. Y.
Chas. W. Stewart, Sunset Electric Co., Seattle, Wash.
Fred D. Stone, The First National Bank of Lincoln, Nebraska.
W. W. Stone, Stone-Ordean-Wells Co., Great Falls, Mont.
F. W. Strickler, Globe Forge & Foundries, Inc., Syracuse, N. Y.
E. G. Sullivan, Metal Office Furniture Co., Grand Rapids, Mich.
Chas. B. Taylor, United States Rubber Export Co., Ltd., New York City.
C. E. Thomas, United States Steel Products Co., New York City.
H. W. Thompson, Whitman, Ward & Lee Co., Boston, Mass.
J. L. Thompson, Construction Industries Service, Fint, Mich.
J. L. Thompson, The Yale & Towne Manufacturing Co., Stamford, Conn.
W. R. Tier, General Outdoor Advertising Co., New York City.
R. P. Todd, Thorp & Martin Co., Boston, Mass.
E. M. Tourtelot, First National Bank of Chicago, Ill.
A. H. Tyler, 532 Blaine Ave., South Bend, Ind.
Geo. C. Ussher, The Studebaker Corp. of America, South Bend, Ind.
Miss G. Wahmhoff, The Harnit & Hewitt Co., Toledo, Ohio.
C. L. Walker, Staley Sales Corp., Decatur, Ill.
W. M. Walther, The Green Bros. Fruit & Produce Co., Denver, Colo.
Wm. A. Ware, Normandin Bros. Co., Los Angeles, Calif.
L. O. Wavle, S. S. Pierce Co., Boston, Mass.
S. E. Webb, H. S. Crocker Co., Inc., Los Angeles, Calif.
F. E. Weirich, Crane Co., Albany, N. Y.
F. B. Whitaker, Memphis Furniture Manufacturing Co., Memphis, Tenn.
Lawrence Whitty, Consolidated Millinery Co., Chicago, Ill.
H. E. Wiedeman, Washington Machinery & Supply Co., Spokane, Wash.
A. R. Wilson, The Auto Equipment Co., Denver, Colo.
R. C. Wilson, The National Copper Bank, Salt Lake City, Utah.
S. M. Wilson, Wofford Oil Co., Atlanta, Ga.
F. A. Worth, Spencer Kellogg & Sons Sales Corp., Buffalo, N. Y.
A. G. Young, The Bradstreet Co., Fort Worth, Texas.
E. M. Zimmerman, Bethlehem Steel Co., Bethlehem, Pa.
W. A. Zolg, Toledo Scale Co., Toledo, Ohio.

ANSWERS TO CREDIT QUESTIONS

Conducted by Walter C. Foster

Banks—State of Iowa

Q. In the State of Iowa, when a check is charged against a depositor's account but the bank closes before the money reaches the payee, the payee has only a general claim against the bank while the depositor's account is a preferred claim. Depositors are paid in full before general claims are paid. This is not equitable. Has anyone carried a claim of this kind through the courts? Is it your opinion that this law could be declared unconstitutional?

A. The law in Iowa, as stated in the inquiry, is not different from the law of other states, namely, that where a check is charged against a depositor's account, and the bank closes before the money reaches the payee, the payee has only a general claim against the bank, and the debtor is released from payment. We understand from the inquiry that an Iowa statute provides that a depositor's account in defunct bank is entitled to priority of payment over the claim of the payee of a check under the circumstances above cited. We see no reason why such a statute should be unconstitutional. Statutes granting preferences and priorities in insolvencies to claimants in various classes are to be found in all insolvency statutes, and we do not believe there is any doubt as to the right of the legislature to make general classifications of this kind.

Bankruptcy

Q. In the event a debtor goes through bankruptcy and receives his discharge in the regular way, is it possible for a creditor to collect his account after that provided he makes some partial payment against the old indebtedness from which he has been previously discharged?

A. Where a debtor is discharged in bankruptcy, the moral obligation to pay remains and is a sufficient consideration for a new promise to pay. The mere payment of something on account of the discharged debt does not revive the debt in the absence of an express promise. Such promise to comply with the Statute of Frauds must be in writing.

Compound Interest

Q. In computing interest on a 10-year note, which bears the following clause, should it be computed as straight interest or compound interest? "With interest thereon in like gold coin at the rate of 6% per annum from date until payment for value received, interest to be paid at maturity."

A. Compound interest is not allowed on a negotiable instrument or other obligation, unless contracted for or where there is some particular statute authorizing it. See 33 Corpus Juris, 252.

As to Legal Advice

THE National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in the Credit Monthly. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principles of law involved.

Banks

Q. What does the law of Missouri hold where a customer's check was charged against a customer's account on a bank which closed before the proceeds of the check reached the seller's bank of deposit?

A. The ordinary rule in such a case is that if the drawer has sufficient money credit in a solvent bank and the account is charged with the amount of the check, the transaction amounts to a payment by him in money and he is released from further liability to his creditor. This rule has been held, however, to be subject to the limitation that the charging of the check to the depositor's account amounts to payment only where the bank at the time the check is charged to the account has in its possession sufficient money to pay the amount of the check. See Byrne & Hammer Dry Goods Co. against Farmers Mercantile Co., Sup. Ct. Neb. June 28, 1928. Missouri has adopted a statute for the protection of the creditor in such a case to the effect that where a drawee or payor bank shall be closed or shall fail after having charged an instrument to the account of the maker or drawer, (there being at such time a deposit to the credit of the maker or drawer sufficient to pay the item so charged to his account) the assets of the defunct bank shall be impressed with a trust in favor of the owner of the instrument for the amount thereof, and such owner shall be entitled to a preferred claim upon such assets, irrespective of whether the fund representing such item can be traced or identified as part of such assets or has been intermingled with or converted into other assets of such failing bank.

Notes

Q. Where an endorsed note has been accepted and before the note matures the holder is requested by the maker not to present it, which request is acceded to, is the endorser of the note released?

A. Failure to present an endorsed note for payment at maturity releases the endorser unless the endorser has waived presentation and notice of protest.

IN THE MODERN OFFICE

An idea and experience exchange on equipment, system and management in the modern credit and business office.

A Comprehensive Credit Card

Waterbury.—We use only one form in connection with our credit work but find that it fills all our requirements. We utilize the space on both sides of the card illustrated. On the face of the form, space is provided for data about a customer's real estate, and this information is of particular value to credit managers of concerns interested in construction work. The column marked "Credit Bureau" could be used to enter the reports of either the local credit association or an interchange bureau.

Space is provided on the back of the card for references and for the collection record of the customer.

F. J. Newcomb
M. J. Daly & Sons, Inc.

(Below) Face of Credit Card
(To Right) Back of Credit Card

REFERENCES

DATE	NAME	H. C.	OWES	REPORT MANNER OF PAYMENT

COLLECTION RECORD

DATE	AMOUNT	CORRESPONDENCE	PAID	DISPOSITION

NAME — STOP ○ CREDIT — FILE No.
STREET ADDRESS — CITY — TERMS
BUSINESS OR OCCUPATION — LIMIT

YEAR	CREDIT BUREAU			DUN OR BRAD					LEDGER REFERENCES			LEDGER REFERENCES		
	RATING	HIGH'T CR	OWES	MARCH	SEP'T	DATE	CAPITAL	DEBT	DATE	OWING	PAYMENTS	DATE	OWING	PAYMENTS

STATEMENTS		BANKS	REAL ESTATE	ASSESSED VALUE	MORTGAGE
BRAD			LOCATION		
DUN.					
DIRECT					

Getting Your Discount

Mr. F. E. Reickert, Credit Manager Todd Company, Rochester, New York, has devised a discount slip which he finds very effective in securing the right discounts from his company's customers. Mr. Reickert's office figures out the amount of discount allowable on each bill, and attaches a slip to the bill so that the customer will be sure to deduct the proper amount. In many cases, discount is taken on items which are not eligible to discount. Mr. Reickert states that many customers, he found, had not taken discounts because they were not entirely sure of how the discount should be figured. It is also interesting to note that this discount slip is a good salesman, telling the customer what he will gain by taking advantage of the discount. The wording of the slip is as follows:

> **You may deduct $......... Discount from this Invoice if paid on or before........... Please note that a 2% Cash Discount in Ten Days on a 30 day Net Invoice is equal to 36% per annum. Therefore, it is to your advantage and benefit to discount this bill.**

Saying It with Poetry

Mr. E. Don Ross, Irwin-Hodson Company, Portland, Oregon, sends in an enclosure slip which his company sends to customers along with letters that go out. The use of a poem in connection with "Getting Your Money"

works out very satisfactorily in this case. The same procedure may well be followed by credit departments throughout the country.

The Fellow Who Owes Me a Dollar

IF the fellow who owes me a dollar
Will hurry to pay it to me,
Not only with joy I will holler
But to pay it right out I agree.

I'll pay it to someone I owe it,
I'll ask him to pass it along—
And life, before hardly we know it,
Will be one grand, beautiful song.

That dollar I pay to the fellow
I owe, that he pays to the next,
Will soon have us feeling so mellow
We never are troubled or vexed—

That dollar, that now is a worry,
Will make all our sorrows depart;
That dollar would help in a hurry,
If he would just give it a start.

In fact if I only could collar
That dollar, how happy I'd be!
We could pay all the world with that dollar,
If that fellow would pay it to me.

—Exchange

Common Stocks As Investments

(*Continued from page 25*)

In times of industrial prosperity many companies expand their business by the acquisition of units engaged in the same industry. The stockholder of a company acquiring other units is naturally interested in knowing whether such acquisitions have been effected on a reasonable basis.

While it is conceded that proper determination of the value of any unit is complex and involves the consideration of a number of factors, an appraisal of relative earning power can readily be made which will give some indication of the favorableness at least on an earning basis of the acquisition. Assuming that Company A is earning \$5 a share on its common stock and proposes to issue 20,000 shares of its own stock in exchange for the assets of Company B. If the latter company is earning \$1,200,000 annually, these earnings are equivalent to \$6 a share on the stock of Company A which is being issued for Company B. It is apparent that from the viewpoint of the stockholders of Company A the exchange was made on a favorable basis, since the earnings of the acquired company are equal to \$6 a share on the stock issued in exchange for it compared with earnings of only \$5 a share for Company A. For strategic reasons it may be advisable sometimes to acquire control of a competitor on what may appear to be extremely generous terms. However, a constant practice of acquiring other units by paying what appears to be a high price will generally tend to depress the earnings of the company making the acquisition, thus working to the detriment of the stockholders.

During periods of rapidly rising security prices a great deal is heard about "hidden earnings." Very little is ever heard about "overstated earnings." Both practices are vicious and decidedly misleading to stockholders. Earnings can be "hidden" in many ways, principal among which are charges to earnings which should properly be capitalized and excessively liberal depreciation charges. Conversely, earnings may be overstated by capitalizing expenses which should ordinarily be charged against expense and by skimping on depreciation charges. It is not the intention here to deal fully with the subject of "hidden" earnings and over-stated earnings, but to point out that depreciation charges should always be considered especially from the viewpoint of determining the adequacy of such charges. No hard and fast rule can be set down as to what constitute reasonable depreciation charges. However, by computing the amount charged off to depreciation as a percentage of the cost of the properties as shown on the balance sheet and comparing the percentage so derived with that of companies engaged in the same industry, some indication can be gained as to the adequacy of the depreciation policy.

The investor in common stocks is interested in appreciation in market value. Such enhancement in value is usually had in one or both of the following ways:

1. Through increased earnings.
2. Through a higher market capitalization of earnings than formerly existed.

Both methods contain a great deal of uncertainty. Increased earnings depend upon general business conditions, conditions in the specific industry and the ability of the management to conduct successfully the affairs of the company. Higher market capitalization of earnings (a higher price-earning ratio) depends on the public fancy, the favor with which the stock is considered by the investing public. It is evident that

(*Continued on page 50*)

TO THE EDITOR

Salesmen's Aid in Collections

Your magazine is very thoroughly digested by every department of our organization, and we get some very helpful hints from it.

We feel that your readers are as much interested in these comments as we are, and may we take this opportunity, at this time, to pass on to your readers our experiences with regard to the topic of "Should the Salesmen Help the Credit Department Collect Past-Due Accounts?"

Our sales organization is very closely knit with the Credit Department and we generally rely on the salesmen to give us territory information which is quite a determining factor in the extension of credit. We school our salesmen to bring in their impressions of the Retailer's capacity, the manner in which he markets his merchandise, and the general appearance of the store. This, together with the financial statement and references, has been a great help to us in determining his line of credit.

When an account runs slow, we immediately set the salesman on the job to collect. This has proven a very efficacious method of speeding up slow collections, inasmuch as the salesman realizing that his shipments will be curtailed unless the account is paid, uses his sales ability to collect, and, at the same time, invariably procures additional business.

G. G. Hill
Credit Mgr., Specialty Service Corp.
New York

A Cure for Bad Debt Losses

I read with much interest Mr. Fraser's article on the annual bad debt loss of a billion dollars.

Naturally our thoughts immediately go to possible ways of reducing it. Being orthodox, I naturally think of the National Interchange and the feeble support given to it by members of the National Association of Credit Men.

I believe that we have a means there by which we could reduce the loss by at least a hundred million and I would not be surprised if other users of this information would consider that I am entirely too conservative in specifying that amount. I do wish we could visualize what it would mean if all of the credit men cleared their ledgers through the National Interchange. We have a tool there that is as valuable to us as taking a patient's temperature is to a doctor, or as taking the pulse.

We are flooded with individual inquiries, very few giving the inquirer's information—a slipshod, feeble way. Why, it is just like a physician laying his hand on the patient's brow and guessing at the extent of his fever! When I hear of the number of credit men representing large houses who are not using this source of information, I am aghast. Why, Mr. McCall, they ought to know better! Are we always going to be content to talk about the billion dollar bad debt loss and not even use the means at hand furnished by our Association to reduce it?

The National Interchange is just exactly what those big fellows want and have been looking for for years. Is the trouble with the managers of the local Interchange Departments? Have they told these other credit men about it? As Mr. Fraser has written well on the subject, let's everybody do something about it.

C. E. Mann
Credit Manager, Munsingwear Corp.
Minneapolis

Common Stocks

(*Continued from page* 49)

appreciation through increased earnings is the more sound of the two methods. The trend of the company's earnings over a period of years is then of paramount importance. The earnings should be studied to determine if a reasonable increase has been shown and also the degree of stability of earnings especially in times of depression.

The last point confronting an investor is whether or not the stock is reasonably priced. The mere fact that a stock is selling at only one-third of what it was selling for a little over a year ago does not indicate that the stock is now a bargain. The usual method of determining the relative price of a stock is the price-earnings ratio. The reciprocal of the price-earnings ratio denotes the percentage of earnings on the market value of the stock. For example, if a stock is selling at 12 times earnings, the company's earnings per share are at the annual rate of $8\frac{1}{3}$ per cent. on the market value of the stock (the reciprocal of 12 being $8\frac{1}{3}$).

Each investor must determine for himself whether or not he considers a stock reasonably priced for investment purposes. The average investor probably does not realize the significance of the price earnings ratio, especially high ratios such as 20 and 25. A specific example may tend to clarify the situation. Assume a stock earning $4 a share and selling at 100 or 25 times earnings, paying $3 a year. At a price of 100 the yield will be 3 per cent. or fully a point less than that obtainable on the highest grade railroad bonds. What can an investor expect in the way of increased income and appreciation in principal over a period of years? It will first be necessary to assume a rate of growth in earnings over a future period of time, based upon rate of increase in earnings in past years.

If it is assumed that earnings will increase at an annual rate of 20 per cent., at the end of five years earnings will have doubled and will be equal to $8 a share. If the company pursues the same dividend policy, namely, paying 75 per cent. of earnings out in dividends, the dividend will then be $6 per share, equal to a return of 6 per cent. on the purchase price, after holding the stock for a period of five years. If at the end of the five years the stock is still selling at 25 times earnings it would be worth $200 a share showing a 100 per cent. appreciation in market value. If, however, the stock were to sell at only 10 times earnings, it would be worth 80 showing a depreciation in market value from cost of $20. At a price earnings ratio of $12\frac{1}{2}$ the stock would be worth exactly 100 or the cost price.

The above hypothetical case should illustrate some of the risks involved in purchasing common stocks on a high price earnings ratio basis and emphasize the need of careful scrutiny as to the reasonableness of the price.

Can Credit Win?

(*Continued from page* 27)

and took their chances on being caught. A few such burglaries convinced the tribal head that it was up to him to put a stop to such goings-on . . . and he did so by listening to the story of the robbed man and the defense of the accused. If, in his opinion, the accused was guilty, he was dispatched on the spot. If not, the accuser was dispatched with equal celerity.

As society developed still further, a need for some common medium of exchange was felt. Hitherto, trading had been done with actual household goods, weapons, cattle, grain and the like, but these items were too bulky for easy handling and there were continual disputes among traders as to the real value of the articles bartered. So, in a variety of curious forms, money was invented and enjoyed widespread use.

With money, of course, came a furtherance of the growth of credit. Unfortunately, with money came also an increase in banditry. It is comparatively difficult to rob a man of all his household goods, his stock and his tools, but when those same articles are represented in value by a handful of metal discs, the task is so easy that it does not tax the strength of the most emaciated and puny crook. In the Middle Ages, when it was the custom for every man to carry all his wealth on his person in the form of money, bandits and highway robbers flourished.

In order to cope with this deplorable situation, travelers began to travel in large groups, trusting to their combined strength to repulse the attacks of robbers. This, naturally, was followed by a similar move on the part of the bandits, and for every traveler in a caravan, there were two robbers in the band that robbed and often murdered him.

This, the financial powers of the age felt, was too much. They realized that the prime motive behind the actions of the bandits was desire for money, so they decided that the best way to re-

move the entire evil was to store their cash where thieves and bandits could not touch it. Casting about for the most simple way of doing this they devised crude money chests, huge, ponderous and cumbersome things that, when filled with money, were far too heavy for the combined strength of ten bandits. This is, apparently, the first and only time Man ever employed the law of gravity as a means of protecting his wealth!

The bandits, frustrated for a time by this move, finally put their heads together and reasoned that half a loaf was better than no booty at all. Whereupon they went in for burglary, an art that had all but died out, taking just a portion of the contents of the chests, leaving the cumbersome box and the money they could not comfortably carry away.

This last coup of the unlawful fraternity convinced wealthy citizens that the problem of protecting wealth was too serious and involved a one for individuals to cope with. Not only did a man have to protect himself against the robbers, he, further, had no recourse in law . . . for governments were in the hands of dissipated monarchs and tyrants who, having no respect of their own for life or property, could not be bothered with the pleas of common men for protection.

In view of these deplorable conditions, the only hope for the unfortunate victims was to organize along the same lines as the bandits. This was somewhat difficult, for there was an almost universal distrust of mankind prevalent at the time, but, finally, through the efforts of a few enlightened financiers, merchants mutually agreed to place their gold and other valuables in central storage places, strongly guarded and built to resist any efforts of bandits to break in.

These central storage places were the forerunners of our modern banks. They were dungeons, deep within the massive stone walls of castles situated in remote spots. The castles, as was the custom, were protected by moats, portculli, armed troops and all the media of warfare then in use. There, merchants could store their gold. There they could meet with other honest men, borrow money, loan money, transact all sorts of business . . . and credit became a potent reality for the first time in history!

For a time, these fortresses proved sufficiently safe for the needs of the moment and served a double purpose in that they were places of refuge for townspeople whenever robber bands would enter a village for an afternoon of assault, pillage, torture and sabotage. But, as commerce, trade and credit developed, it became apparent to far-seeing merchants that centrally located institutions would have to be developed to take the place of the remotely located fortresses. Hence, such early organizations as the Amsterdam Bourse and the Bank of England came into being and established the groundwork for our present-day highly developed system of banking facilities.

Criminals always follow the line of least resistance. Playing true to form, they returned once more to the not-so-lucrative, but easier, branch of crime—highway robbery. No one was exempt from the onslaughts of the bandits. If a traveler were a nobleman, he was stripped of his gold, his clothes, and, sometimes, even his wig, if he wore one. If he were a peasant, the highwaymen robbed him of his crust of bread, his clothes, and vented their spite upon him with a severe beating. Once again the cycle of Crime had returned, with vengeance, to an era of daylight robbery . . . banditry.

What did the financial men do? They conceived letters of credit. Travelers instead of carrying money on their persons while going long distances, carried communications from one bank to another, letters which allowed them to remove from one bank the same sum they had deposited in their own. For this privilege they paid tribute but it was most certainly worth it!

However, the huge sums of gold and the great fortunes in precious stones which had accumulated in the vaults of the early banks were prizes too rich to be long neglected by the criminal element, and we find, a short time later, that there was a return, to a degree, of the burglary technique which had once before terrorized and harrassed the world. Immediately, stronger vaults were constructed, guards were doubled, every precaution to foil the burglars was taken . . . but, as has always been the case, the crooks fought fire with fire and soon developed a new technique of robbery with the aid of several ingenious inventions.

Today, we have an era of racketeering. The modern crook, like his swashbuckling, bearded predecessor, has followed the line of least resistance and is devoting his efforts to the robbing of merchants, householders and unwary pedestrians. The success which attends those efforts is attested to by every copy of metropolitan newspapers. Holdups and racketeering are the vogue in Crimeville now! The growing tendency to use drafts and checks almost en-

One Month's Convictions

Fraud Prevention Department of the National Association of Credit Men

AUGUST, 1930

Case	Individual	Charge	Sentence
Cameo Furniture Co., Brooklyn, N. Y. (Furniture)	Tannenbaum, Paul	Concealment of books	6 months, suspended
	Feinglass, Joseph	Concealment of books	6 months, suspended
Jacob Kimono Corp., New York City, N. Y. (Mfrs. kimonos)	Jacob Solomon	Conspiracy,	1 yr. 1 day
	Creighton, Frank	Concealment of assets and falsification of records	Six months

Total of 986 Convictions from June 1, 1925, to August 31, 1930

tirely, carrying little or no cash on the person, has, naturally, cut into the modern bandits' revenue, but against "racketeering" there is no protection . . . yet.

And when that protection comes, it will either come from the bankers or the credit men of the world. All through history, the financial leaders have been the guiding figures who showed men how to protect themselves from crooks. As fast as the unlawful fraternity has devised means of mulcting or robbing mankind, the level-headed financial leaders have devised means of combatting them. History is shot through with their courage and foresight . . . but who is ahead now—crook or banker, racketeer or credit man? Never before have the bankers and credit men been faced with such a problem as now confronts them!

The investment of millions of dollars depends upon whether or not the financial leaders of today are able to display the same ability to cope with robbers, racketeers, as did the old tribal heads, the Middle Age custodians, the founders of the Bourse . . .

Can they do it?

Addresses Wanted

ALLEN, WILLIAM H., formerly associated with Clay, Hotchkiss & Schroeter, Plaza Bldg., Oakland, Calif., selling life insurance. Shortly after this he became identified with the Sun Life Insurance Company of Canada with offices in the Latham Square Bldg., Oakland.

BERNSTEIN & RUBENS, formerly Sheridan Beach Nook, 7301 Sheridan Road, Chicago.

BERNSTEIN, WILLIAM, formerly in the retail stationery and candy business at 101 48th Street, Union City, N. J.

BROWN, LEOPOLD, formerly of 9 West Fourth Street, Bethlehem, Pa., and later in N. Y. C.

CLUEVER, PHILIP, formerly 7705 W. Lake Street, Forest Park, Ill.

CORBYN, A. (MRS.), formerly 444 E. 57th Street, N. Y. C.

CORSO, FRANK G., formerly in the tailoring business in Cleveland, Ohio.

COWAN, WILLIAM, Merchandise peddler, around New Orleans and Hammond, La. Understand originally from Phila.

DAVIS, FRANK L., formerly operated as Davis Marble Company, 133 West North Avenue, Chicago.

DELMAR SHOE CO., INC., 133 Floyd Street, Brooklyn, N. Y.

DE SHON, H., formerly W. Adams Drug Company, 1895 W. Adams Corner La Salle Street, Los Angeles, Calif.

ERNEST, SAMUEL, formerly 2242 Tiebout Avenue, Bronx, N. Y. C.

FLINT, G. C., formerly operating Economy Elec. Company, Joplin, Mo.

FORT, formerly Ott-Fort Pharmacy, 853 Central Avenue, St. Petersburg, Fla.

FOX, EDWARD J., formerly 14801 Livernois Street, Detroit, Mich.

FRANKEL, NATHAN, formerly of Holland, Michigan.

GALLOWAY, A. J., formerly Southern Pharmacy, 2995 National Avenue, San Diego, Calif.

GOLDFARB, IRVING, formerly 46-14 Stillman Avenue, L. I. City, N. Y.

GORIN, H., formerly at Balboa Avenue, Colon, Republic of Panama, left that country several months ago, and now reported somewhere in Boston.

GRALITZER, M., Prima Painting & Decorating Company, formerly operating at 3012 Addison Street. Understand has moved to California conducting an interior decorating business.

GROSS, B., 724 E. 163rd Street, N. Y. C.

HAMBLY, R. F. Real Estate operator in Chicago. Formerly Secretary of the Celluloid Adhesive Co., Chicago.

HEITZ, HAROLD W., formerly at 10 North Clark St., Chicago.

HOLDGRAF, R. P., formerly of Manhattan, and Chicago, Illinois. Former salesman with the National Gypsum Company, Buffalo, N. Y.

HOLMAN, C. B., formerly operated The New York Dress Shop of Centerville, Iowa.

HUB SUPPLY CO., 243 9th Avenue, N. Y. C.

HURLEY, J. W., formerly operating at 1008 North Dearborn St., Chicago.

JARETT, ARTHUR M., last known address, 2219 South Street, Phila., Pa.

JOHNSON, WM. E., formerly Orlando Hotel, Detroit, Mich.

KUSHNER, ABRAHAM, tailor, formerly located at 74 Park Avenue, Rochester, N. Y. Left some time ago, presumably for N. Y. C.

MAC FADYEN, S. A., formerly located at 3968 Ellis Avenue, Chicago.

MATHISON, V. C., formerly operated as the Radio Owners, Inc., 916 Broadway, Oakland, Calif. Reported to be in N. Y. C., located at 39 Courtland Street.

MAZZA, ANGELA, Proprietress, European American Opera Record Company, 2292 3rd Avenue, N. Y. C.

McDANIEL, O. W., formerly doing business as Fayetteville Electric Company, Fayetteville, Ark.

MORDEAU, HOWARD, formerly connected with Flash Drug Company, 535 Grand River Avenue, Detroit, Mich.

MULVIHALL, D. A. (MRS.), formerly Hotel Duncan, New Haven, Conn.

PASCUL, ISAAC, Pleasing Sound Phonograph Company, formerly 151 Fifth Avenue, N. Y. C.

PERKINS, L. C., formerly 1500 E. State Fair Rd., Detroit, Hazel Park, Mich.

PICKWICK REST, formerly 1074 St. Johns Place, Brooklyn, N. Y.

PUTNAM, W. D., formerly the Amerstand, Mobile, Ala.

RAY, WM. H., formerly of 5 Horatio Street, N. Y. C. and 94 Bergen Pike, Little Ferry, N. J.

ROGERS CONSTRUCTION CO., W. A., formerly 234 Martine Avenue, White Plains, N. Y.

RUSSO, A., formerly 543 E. 180th Street, New York, N. Y.

SERLING, formerly Serling Drug Company, 1901 West Forest Avenue, Detroit, Mich.

SILLER, LEO, operated under the name of the Silko Store Company, Washington, N. C., until June, 1930. Reported moved to Greenville, N. C.

STRAUB, CHARLES A., formerly operated Straub's Pastry Shop, 97 Willard St., West Quincy, Mass. (from April 1929-July, 1930).

STOVALL, A. N. Fort Worth, Texas, reported headed for Los Angeles.

TAYLOR, GEORGE. Formerly 2198 Cruger Avenue, Bronx, N. Y. Now believed to be in grocery busi-

Harvey Firestone

(*Continued from page* 30)

Some of the banks wanted the money—of which there was none. Mr. Firestone was in Europe at the time. He hurried back to the United States.

What did he do? What would you do? What he did is given here as Mr. Firestone told it to me when I interviewed him at the Ritz-Carlton in New York:

"When the crash came I found myself personally owing the banks several million dollars because every cent I had was invested in Firestone stock. I borrowed whenever I saw a good opportunity to get more stock. In a few days the value of the stock had dropped below the amount of the loans for which it was security. I was, therefore, unable to help meet the company problem with my personal fortune. I was instead threatened with grave dangers in both places.

"The one fact that came home to me at once was the realization that we had lost our sense of values. With good fortune piling up as a result of external economic conditions as well as the expansion efforts of the company, we had been sailing briskly along with the stream of rising prices. This condition covered up our mistakes. We neglected the appraisal of values. And we had not even thought of what we would do in case such a catastrophe should happen."

Mr. Firestone's statement, ". . . we had not even thought of what we would do in case such a catastrophe should happen", brings up the ever recurring principle of success that I have found to be fundamental to achievement. Every one of the fifty national and international leaders that I have interviewed during the past three years has expressed this thought in some way. Sound analysis shows that success comes as much from a negative point of view or approach as from a positive objective. A man succeeds by studying *how not to fail* rather than by studying *how to succeed*. Napoleon elucidated this basic principle of success when he said, "I think of how I am going to keep from losing instead of how I am going to win, what I am going to do in case of defeat instead of what I am going to do in case of victory." The country wouldn't be in the throes of depression if there had been some thinking on what to do in case business took a turn for the worse. We would have been prepared to meet the situation at once. Mr.

Firestone is very emphatic in his belief that this attitude on the part of his company was the real cause of its predicament. His narrative continues:

"I look upon the first twenty years of the company's existence as a preparation for the real crisis of 1920. The fact that we came out of the struggle better off than we went in it proves to me that our foundation and organization principles were sound, even in face of the fact that during the years of high prosperity we had neglected to *think through* and prepare ourselves for any contingency that might arise. After I returned we reduced our bank loans twelve million dollars in two months and lined the banks up so they would do everything to help us and nothing to hinder us. We reorganized the internal functions and methods of the company, made changes in our manufacturing and selling and *began to think again.* We carried from that point through the dullest years the tire industry has seen and by October 1924 had paid off every cent of indebtedness and were in a much sounder condition than at any previous time.

"When the shock started us on the way to comparing expenditures and results we discovered that instead of 1500 office employees we needed only 300. I received my greatest shock when we delved into the selling end of the business, which had in a way been my hobby. During the period when people rushed in to buy without the necessity of a real selling effort on our part we had built up an intricate and top-heavy selling organization that could not possibly pay its way. We had to bring down the sharp axe of common sense on this situation.

"The real fundamentals of industrial management and of manufacturing really narrow down to two questions: Is it necessary? Can it be simplified? There must be a 'why' to every operation and method. For a long time the tradition that rubber had to be aged in a storehouse bothered me. Everyone said this was imperative but no one could tell me why. So I said we would do away with the aging process since I could find no 'why' for its existence. Nothing happened. I could cite you several other examples just like this proving that we should be insistent in getting an answer to the question, 'Is it necessary?'

"Once the necessity has been established there is one more question to ask, 'Can it be simplified?' Most processes can be simplified, lost motions eliminated. As a result of applying these two questions to our organization and procedure we are making better and cheaper tires with fewer men. Our manufacturing turnover has been cut from sixty to fifteen days. A few years ago, with a much smaller output, we were pressed for space. Today we do not utilize all the space at our command."

Just a suggestion, reader of this article: Ask yourself these two questions and give them rigid application to your own problems. Then watch your turnover of successful effort increase by leaps and bounds!

Harvey Firestone is a many sided man. At his Akron estate he operates a model farm and dairy. His herd of Guernseys is one of the most famous in America, winning 188 blue ribbons in the stock show season of 1927. He also has a sterling stable of blooded horses—a love that has remained with him since horse trading days. Back in the days when buggies were popular a man was often judged by the team he drove. It was a recognized sign of mental astuteness. Mr. Firestone was once afforded an excellent opportunity because one of the leading townsmen thought Harvey Firestone drove a team that was a little bit better than his own. The Firestone stables also include a fine string of polo ponies. His four sons were early taught to ride and play polo.

Harvey Firestone's name stands out on the American horizon for his amazing feat of almost single handedly defeating the British Rubber Restriction Act after years of patient effort had been given to the matter and influence mustered from every conceivable source by those who were fighting it. It was an outgrowth of this situation that led Mr. Firestone to establish rubber plantations in Liberia. The Firestone activities in Liberia reveal as much as anything else the great and notable qualities of the broad-visioned man who initiated them, but space makes it necessary to take refuge with Kipling and say, "But that is another story."

Among the larger events of his life Mr. Firestone lists the well publicized camping trips that he took over a period of nine years with Thomas A. Edison, Henry Ford and John Burroughs. The publicity that finally attended these trips, Mr. Firestone told me, deleted them of their object and charm and they were finally abandoned. As Mr. Firestone told me a few things about this trip-taking another principle of real success came to my mind. Men with large

minds like to associate with men of large minds. Here is one of the richest forms of human reciprocity in existence—companionship of minds. And everyone can ask himself this question, "Do I like to associate with men whose minds are as great or greater than my own?" Most men don't. Their inferiority complex licks them. They are speechless in establishing a communion of thought with minds that paint pictures and ideas on a broad, vast canvas. Answer this question for yourself and you answer in part your chances for success.

Harvey Firestone has the least common denominator type of mind. Eight-tenths means four-fifths to him. He goes right to the heart of the matter. Some of the things he told me and many of the things he has written reveal this. A few of his thoughts are given to illustrate real "shortest-distance-between-two-points" thinking:

"The man with a surplus controls circumstances. The man without a surplus is controlled by circumstances."

"There is some small satisfaction in just giving away money, but the great satisfaction is in giving others the chance to be independent."

"We try to substitute discussion for thought by organizing committees. A committee may function very well indeed as a clearinghouse for thoughts, but more commonly a committee organization is just an elaborate means of fooling one's self into believing that a spell spent in talking is the same as a spell spent in thinking."

"You will fail if you think more of matching competitors than of giving service. There is no reason why you should succeed if what you do does not benefit others."

"The difficulty is to pick out men who can and will think and put them into positions where thought is needed."

"Only one out of every hundred men can stand the test of prosperity without losing his sense of values, and fewer still can face adversity without digging in."

Retail Method of Inventory

(*Continued from page* 31)

rely entirely on the retail prices for inventory purposes.

In addition to the protection afforded against error, a distinct saving in time has been found possible, and in numerous cases it has been the experience of distributors that the use of the retail method cut in half the time ordinarily necessary for a general inventory throughout the store.

More important than the protection against error and the saving in time, however, is the advantage afforded by the retail method in determining the proper valuation of merchandise. The valuation of stocks, especially in a declining market, is in the majority of cases, automatically accomplished through the taking of markdowns where the retail price is too high to meet competition and, to move items not salable at normal prices.

In a retail business there are at least four important reasons for maintaining book figures to show at any time the amount of merchandise that has been sold and the amount that should be on hand:

1. In order to ascertain the amount of stock shortage.

2. In order to facilitate the intelligent planning of sales, stocks and purchases.

3. In order to afford a basis for insurance settlement.

4. In order to permit the determination of profit, without the necessity of a physical inventory.

The retail method provides a book figure for the selling price value of merchandise on hand at any time. When a physical inventory is taken at retail, a comparison of the book figure for the retail value of merchandise on hand, with the retail value of goods actually discovered to be in stock, reveals the amount of the retail stock shortage, or overage as the case may be. The retail method does not indicate exactly where or why a shortage has occurred, and a further investigation is necessary to ascertain the reasons therefor.

As an aid to the intelligent planning of sales, stocks and purchases the retail method has been found to give the desired results as the whole trend of modern merchandise planning is in the direction of greater emphasis on the selling price figures and less emphasis on the cost figures. Over buying frequently results from ignorance of amounts of merchandise actually in stock and a merchant, ordinarily, cannot resort to a physical inventory every time he wishes to determine how much to buy. It might be mentioned here that in some cases it is very desirable to also keep a perpetual inventory in physical units as an aid in planning the purchases to be made.

Insurance companies have manifested their willingness to accept the valuation figures arrived at by means of the retail method, as a basis for settlements.

The amount of stock shortage, having been obtained through past experience, is taken care of through a reserve and is accumulated on the basis of a percentage to sales. In a retail business it is desirable to know each month, or, even more frequently the amount of gross margin that is being realized in each department. It would not be practical to take a physical inventory that often. In summing up, it might be stated that the book inventory figures obtained by the retail method serve all the purposes for which such figures are needed; they reveal the amount of stock shortages; they facilitate the planning of sales, stocks and purchases; they afford a basis for insurance settlements and they permit the determination of profit as often as desired without the necessity of physical inventory.

THE KEYS ARE MOVING

By FRANK A. FALL
Director, National Institute of Credit

THE new Institute key, illustrated above, is making a decided hit. Orders are coming in from holders of Junior and Senior Certificates, and many Chapter members who have partially completed the curriculum have announced their intention of taking the required courses and qualifying for the Institute insignia.

The key was exhibited by the Director on a recent trip covering Philadelphia, Chicago, Jackson, Evansville, Louisville, Nashville, Kansas City, Wichita, Lincoln and Omaha. In every city, much interest was shown in the innovation, and a remark frequently heard was: "I'll certainly have to earn one of those."

As announced in the September issue of Credit Monthly, the key is of 10-carat gold and compares favorably with the best insignia manufactured for college and fraternal organizations. The Senior key is the same as the one illustrated, except that it bears the word "Senior" instead of "Junior."

The method of obtaining the keys is simple. The Institute provides them to holders of Junior and Senior Certificates at $4.50 each, which is virtually at cost. Upon receipt of check or money order, made payable to the National Association of Credit Men and sent to the Director of the Institute at One Park Avenue, New York City, keys will be sent at once by prepaid registered mail. Watch for the Institute key at the Boston convention—it will be there!

COURT DECISIONS AND WASHINGTON NOTES

DISCHARGE. REFUSAL TO GRANT. REASONS. (N. Y.).

Held that the Trustee made out a prima facie showing on the specifications, and the burden then passed to the bankrupt to exculpate himself from the charges made by the objecting creditor. There was no adequate explanation of the shortage of 347 raccoon skins. Neither was there any satisfactory testimony by the bankrupt to account for the very large losses during the six months immediately preceding the bankruptcy. On these two issues, it was within the power of the bankrupt to make a reasonably satisfactory explanation; and after hearing him fully, the Referee found that he did not do so. The Court does not think these findings should be disturbed. With respect to the transfer of the Pike Street property, it is at least open to doubt whether there was any intent to hinder, delay, or defraud. The transfer was for a present consideration of $1,500, and probably was intended only as a mortgage. The money was obtained at a time when the bankrupt was hard pressed for funds, and was used in the business. Therefore this specification was not sustained. Nor does the Court think that giving the salesmen discretion on prices in making sales is ground for refusing a discharge. It indicates only a shiftless method of doing business, but that is hardly sufficient to justify a finding that the bankrupt hindered, delayed or defrauded creditors. On the whole record, the discharge should be denied. *Matter of Antman.* U. S. Dist. Ct. So. Dist. of N. Y. Decided October 6, 1930.

* * *

EXEMPTION TO BANKRUPT. ATTACHMENT BY JUDGMENT CREDITOR. (PENNA.).

The Hukill-Hunter Company, plaintiff-appellant, petitioned the referee in bankruptcy for a rule to show cause why H. M. Oliver, trustee in bankruptcy of the estate of Louis W. Gurtner, as garnishee, should not turn over the bankrupt's exemption, upon attachment execution issued on a judgment of the Hukill-Hunter Company in the Court of Common Pleas of Allegheny County, Pennsylvania. The question is whether a creditor of the bankrupt holding a judgment containing a waiver of exemption can attach an exemption set aside to the bankrupt, but in the hands of the trustee, on an attachment execution issued out of a state court. *Held* that this question has been clearly decided in favor of the right of the attaching creditor. Until the exemption has been set apart, the funds or property out of which it is claimed, are part of the assets of the bankrupt's estate and in the custody of the law. But after it has been set aside as exempt property, it constitutes no part of the assets in bankruptcy. The trustee held the amount of exemption as an individual and not as trustee and the bankrupt's exemption in the hands of the trustee is subject to attachment execution issued out of the state court. *Hukill-Hunter Co. v. Oliver.* U. S. C. C. A. 3rd Cir. (Penn.). Decided September 4, 1930.

* * *

ISSUE OF SOLVENCY. JURY TRIAL. SCHEDULE OF ASSETS. N. Y.).

The alleged bankrupt has filed an answer setting up solvency as a defense, and has demanded a jury trial. The present motion is to compel the alleged bankrupt to annex to its answer a schedule of assets and liabilities. *Held* that Equity Rule 58 is applicable to this situation. Where the issue of solvency is triable before one of the referees as special master, the petitioning creditors do not need in advance the information sought here. Here, however, a jury trial is demanded. The hearings will be continuous. The petitioning creditors will be at a serious disadvantage unless in advance of the trial they have information as to the financial condition which the alleged bankrupt expects to prove. Under the General Orders, and also under section 2 (15) of the Bankruptcy Act, the court believes that it has power to grant this motion. *Matter of Robt. T. Cochran & Co.* U. S. Dist. Ct. So. Dist. of N. Y. Decided September 6, 1930.

* * *

CONTRACT OF GUARANTY. MARRIED WOMAN. PLACE OF MAKING. (IDAHO).

The C. I. T. Corporation, a California corporation, files its involuntary petition in bankruptcy against Maude C. Sanderson, a married woman, praying that she be adjudged a bankrupt. The indebtedness of the bankrupt to the petitioner arises out of an alleged liability as a guarantor on a written instrument signed by her while she was residing in Idaho in which she, with others, in consideration of an extension of credit to the Sanderson Motor Car Company guaranteed the payment of all sums advanced by petitioner to the Sanderson Motor Car Company. The question is: Whether a contract signed by a married woman, resident and domiciled in the state of Idaho, and forwarded for acceptance and completion to the other party thereto in the state of California shall be enforced in the state of Idaho, although such contract would be invalid if governed by the laws of Idaho? The chief contention of the petitioner is that the guaranty contract contains a provision that "it is to be construed according to the laws of the state of California" and that, to make the instrument a complete contract, it had to be accepted by the C. I. T. Corporation, which was done in the state of California; and as the last act necessary to the completion of the contract of guaranty in question was the forwarding of it to San Francisco for acceptance, it must be regarded that the place where the contract was made was in the state of California where a married woman can legally make such a contract. *Held* that the bankrupt did not become liable, nor the contract completed, until there was a meeting of minds of both parties thereto, which required the acceptance by and delivery of the contract to the petitioner in San Francisco, California. The conclusion of the court is that the contract was one entered into and covered by the laws of the state of California and is valid and binding on the bankrupt under the laws of that state. Motion to dismiss overruled. *C. I. T. Corporation v. Sanderson.* U. S. Dist. Ct. Dist. of Idaho. Decided August 28, 1930.

WASHINGTON NOTES

How Wholesalers Can Reduce Their Operating Costs

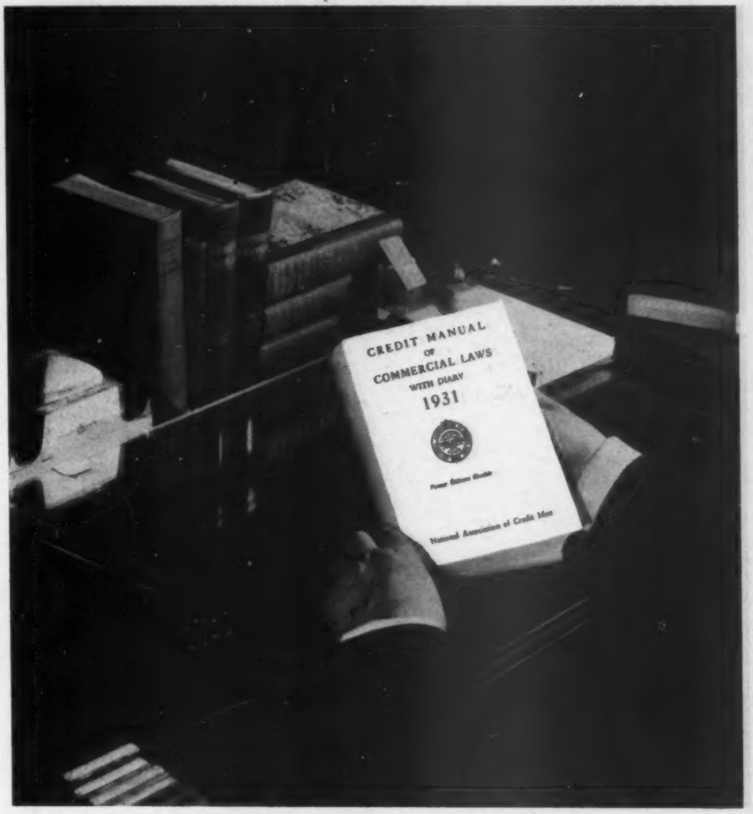
Several ways for wholesalers to reduce their operating costs were suggested at the recent Trade and Market Development Conference by a business specialist of the Bureau of Foreign and Domestic Commerce. Domestic Commerce reports that he stressed the necessity for an adequate accounting system and indicated numerous sources of waste, insignificant in themselves, but helping to pile up a considerable yearly loss. Confining selling efforts to the legitimate trade area of the concern and a vigilant credit and discount policy were suggested as important ways to reduce wholesale costs.

Reducing electric light bills by requiring porters to turn out the lights in the dead storage or other store rooms in which no one is working and arranging the lighting so that only the section of the dead-storage room where merchandise is being arranged or moved need be illuminated were also mentioned as potential savings.

The speaker pointed out that the reasons for empty warehouse space should be studied. If the merchant has too much space for his business, part of the building could be sublet or he could move into smaller quarters. If his buying policy is at fault he should increase his inventory and so realize the discounts obtainable on quantity purchases.

More important economies are possible in the variable expense group, including efficient use of labor which involves the hiring of competent workers and the convenient arrangement of active merchandise, based on a commodity-movement study.

The desirability of reducing broken-case orders to the minimum compatible with retaining profitable trade was also stressed. The speaker pointed out that this service is one of the most costly which the wholesaler has to perform, involving, besides the salaries of packers and the broken-case department's pro rata share of rent, light and heat, the cost of wrapping materials and in the case of food products, loss from spoiled and deteriorated goods.



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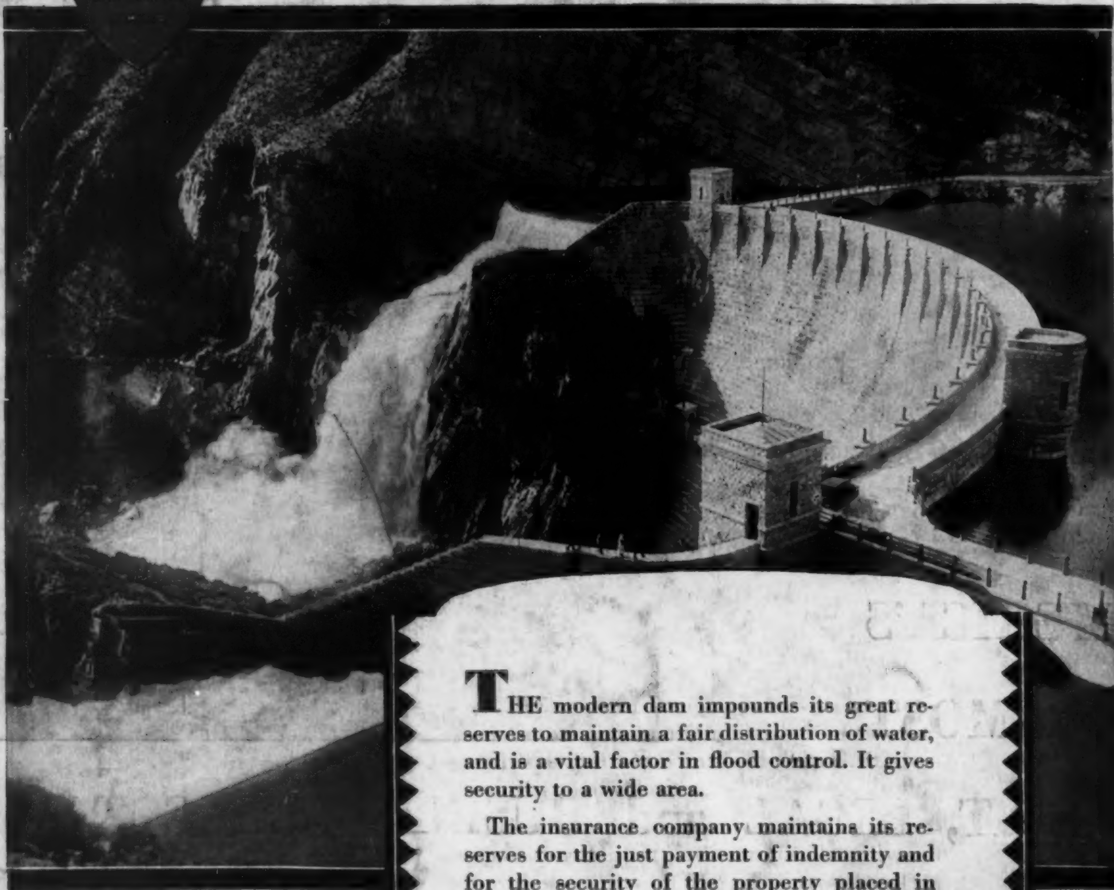

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